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ECONOMIC DIGEST

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ECONOMIC RESEARCH COUNCIL

Our Service to Readers

Scope of Economic Digest: *Economic Digest* was created by the Economic Research Council to meet an urgent practical need. It became evident that members of the Council, and indeed all who are concerned with economics and political science either professionally or as leaders of public opinion, were defeated by the sheer mass of articles, lectures, memoranda, conferences and books. They desperately needed to have the vast output, from all parts of the world, scrutinised and sifted, and their attention directed to the really significant items.

That task was tackled by the Economic Research Council on their behalf. The outcome was *Economic Digest*, which quickly found a world-wide readership spreading far beyond the members of the Council. If it is not the perfect solution of the problem, it has at least proved a vast time-saver and an enomous help to professional economists, politicians of all parties, administrators, men of affairs, and students.

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Subscribers are therefore invited to submit any questions concerned with economic facts, or to submit their own writings or theses for factual criticism which, for obvious reasons, cannot be elaborate.

Readers are also invited to comment on the magazine. Suggestions designed to improve its value are always welcome.

Letters of inquiry should include stamped addressed envelope for reply and be addressed to The Editors, Economic Digest, 18 South Street, London, W.1.

ECONOMIC DIGEST

OCTOBER, 1951 VOLUME IV NUMBER TEN

Food for the World

Agriculture is Still the Weak Spot in Primary Production

By Professor W. Arthur Lewis

In seeking explanations of the world shortage of food and raw materials, we must beware of the pitfall of attributing it to abnormal demand; demand has not grown more rapidly in recent years than was its wont. The explanation lies in progressive failure of supply.

The best measure of world demand for primary products is the index of world manufacturing production. In the forty years before the first world war, this grew at an average annual rate of 3.7 per cent. and world primary production grew at very nearly the same rate. But from 1913 to 1950 the annual rate of growth of world manufacturing was only 2.5 per cent. The demand for primary products has not accelerated; it has slackened.

It is equally erroneous to attribute the shortage to abnormal United States' demand. Here again there has been not acceleration but deceleration. The growth of United States manufacturing production has slowed down from 4.8 per cent. per annum in the period 1873 to 1913 to only 3.1 per cent. per annum in the period 1929 to 1950. Even when stockpiling is taken into account, American demand is not abnormal when compared with the rate at which demand used to grow without putting a strain on supplies.

Indeed, our real complaint against the United States is not that she takes too much primary produce from the world, but that she takes too little. The dollar shortage can be eliminated only if she will import large quantities of primary produce, and her propensity to import is low—out of every hundred dollars by which her national income grows, she spends less than two dollars on additional imports.

Primary Production Declining

In the forty years before 1913, world manufacturing and world primary production grew at nearly the same rates. Since then they have steadily diverged, as the following indices show:

	1913	1929	1937	1950
Manufacturing production	100	152	172	247
Primary production	100	127	140	155

Of primary production, food supplies show the slowest rate of growth. Indeed, ever since 1929, when the great slump started, food production has been growing more

From "Food and Raw Materials," District Bank Review, September 1951

slowly than the world's population:

	1913	1929	1937	1950
Food production	100	116	125	131*
Population	100	113	124	138

* FAO Target.

Between 1913 and 1929 food supplies per head increased a little. But throughout the thirties population grew faster than food; and the effects of the second world war have been disastrous.

Raw materials have fared better. Their rate of growth also declined in the thirties, when world demand was low. Nevertheless, it outpaced demand, and it is only the second world war that has caused the indices to diverge:

	1913	1929	1937	1950
Manufacturing production	100	152	172	247
Raw materials production	100	152	176	212

Subdividing the raw materials group, further information is gleaned:

	1913	1929	1937	1950
Manufacturing production	100	152	172	247
Agricultural raw materials	100	149	194	178
Metals and fuel	100	150	170	239

From this it can be seen that it is the agricultural raw materials which show the biggest gap in supply since the second world war.

Of course, even with the category of fuel and metals, there are wide differences. World coal production has increased only 6 per cent. since 1937, whereas petroleum supplies are up by 89 per cent. Tin is down 20 per cent., lead is unchanged, and iron ore up only 16 per cent., whereas aluminium has trebled. Taking mineral production as a whole, there seems little cause for anxiety beyond the immediate future.

Agriculture Too Low

The really acute problem is that presented by agriculture, both on the side of food production and on the side of raw materials. World agricultural production increased annually by 1.1 per cent. between 1913 and 1929; by 1.3 per cent. between 1929 and 1937; and by 0.3 per cent. betwen 1937 and 1950. These rates are much too low for a world whose population is expected to grow at a rate of 1.25 per cent. over the next decade.

Whereas the main agricultural task of the second half of the nineteenth century was to cultivate the uncultivated, the main agricultural task of the second half of the twentieth century is to cultivate better that which is already cultivated. To raise agricultural yields per acre all over the world must be one of the major objectives. Unless we succeed in this, famine will become endemic in most of the world, and high prices and shortages will become the fate of Britain and of Western Europe.

The job is difficult, but not impossible. On the purely technical side it is very easy. Applying the knowledge we have, the world's agricultural output could be increased by 50 per cent. or more, simply by using better seeds, fertilisers and pesticides, and by making more water available to farmers. The rate of increase of the world's population sets our target: this is at present one and a quarter per cent. per annum, and within two or three decades may even be as much as two per cent. per annum. If, therefore, we can increase yields per acre by two per cent. per annum in the second half of the century we are safe; if not, we are lost.

The social obstacles—especially the educational problem of teaching three or four hundred million farmers to adopt new techniques—are grave. They include also the provision of capital. International investment was the other major support of growing agricultural production in the fifty years before the first world war. Its virtual disappearance is one of the principal reasons why we have run into such an acute shortage of food and raw materials.

International Investment Needed

Today, the United States is virtually the only country which exports capital. Her loans and gifts to countries outside Europe totalled only $500 million net in 1950. The U.K. had a net capital *inflow* from countries other than Europe and the dollar area amounting to £181 million. Can anyone be surprised that world production grows so slowly in these circumstances?

There is little hope that the under-developed countries of the world will begin to achieve a rapid increase of production, unless international investment is revived, or, in the absence of international investment, unless they go Communist, and follow the Russian pattern of squeezing capital out of an impoverished peasantry.

International investment cannot revive on the old basis. For one thing, the private investor is no longer willing to invest large sums in foreign countries. The risks of foreign exchange moratoria, of price and profit controls, and of nationalisation, are too large. The United States is trying to protect its citizens from such risks by making treaties with capital importing countries; but it is not likely that much confidence will be revived, except for lending to countries under effective colonial control, and these are a rapidly diminishing number.

On the other side very few of the governments of under-developed countries really welcome private foreign investment. They ring it round with controls, and even exclude it altogether from some sectors of the community. Some of the more popular fields for private foreign investment, such as public utilities and mining, are no longer open in some countries.

In consequence, if there is to be any large flow of international lending, it must be inter-governmental. The private investor will lend to his government, or to an international agency such as the International Bank. Government or agency in turn lends to the government of the capital-importing country. And this government either invests itself in roads, nationalised undertakings and so on, or re-lends it through special development institutions to farmers, manufacturers and to other private entrepreneurs.

This new pattern of international loans may or may not be as good as the old. At any rate, it has come to stay and it is capable of doing the job.

Importance to Britain

For the United States, plans for world development are a luxury, to be justified only in political or in humanitarian terms. But for Britain, the position is quite different.

Britain lives off manufactured goods and services produced at home, and food and raw materials produced overseas. Her interests

lie in the expansion of both. We may pour capital and knowledge into improving our metal industries; but if capital and knowledge are not also poured into the food and raw materials industries abroad, our standard of living may nevertheless fall. To say "We cannot spare capital for overseas investment because we need it all at home" is to talk nonsense.

This being so, the attitude of successive British governments to foreign investments, over the past twenty years, can only be called short-sighted. Present high prices and shortages are its direct consequence, and these will get progressively worse, as world population grows relative to production, unless we take the lead in organising the flow of skill and of capital into the world overseas.

COAL CONSERVATION

In addition to the meetings arranged by the Economic Research Council and announced last month, Dr. Wilfrid Hill will give an address on coal conservation under the title 'Wealth from Waste' on Wednesday, November 21 at 8 o'clock.

The other arrangements are:

Wednesday, November 7 at 8 o'clock: Miss Marion E. A. Bowley on some aspects of the Housing Problem:

Wednesday, December 5 at 1.15 (lunch-time meeting): Mr. J. Patrick Early on 'The Profit-Sharing Idea; Practical Experiments.'

All meetings are in the Angus Room, 55 Park Lane, London, W.1. Non-members who wish to be present are asked to notify their intention to the Secretary, Economic Research Council, 18 South Street, London, W.1. (GRO 4581).

MR. GEORGE POLANYI: CORRECTION

In presenting the article on 'From Dreams to Reality in Influencing Industrial Location' by George Polanyi in our August number, we confused the author with his father, Professor Michael Polanyi, and embarrassed the author by assigning to him the title 'Professor' and the distinction 'F.R.S.' which belong to his father. We regret the mistake.

Ed. Economic Digest.

Chancellor Tells the T.U.C.

By The Rt. Hon. Hugh Gaitskell, M.P.

To have held the cost of living index steady over the past year and to the end of 1951 would have meant an extra £600 millions a year in subsidies, on top of the £400 millions we were already spending. It just could not be done.

Was there a case then for some increase, perhaps of £50 millions? If we had done that it would have made, of itself, a difference of just over one point in the cost of living index.

If you took away all the excess net income above £2,000 a year, it would bring in only £53 millions to the Revenue. This is an indication of how little help we can get from further measures of heavy taxation on the rich.

No Hope From Profits

Companies paid in taxes in 1950—without including the income tax on dividends at all—nearly £800 millions, over seven times as much as in 1938. They also put to reserve or back into the business nearly £600 million, over three times as much as pre-war. The total of dividends and interest, on the other hand, even before deducting income tax, rose by only a little over half, compared with 1938.

May I put to you two other facts about profits at the present moment? The first is this: you cannot avoid a fairly high level of profits generally if demand is buoyant and turnover high. These are precisely the conditions that are bound to be associated with full employment.

Secondly, it is broadly true that the biggest increases in profits recently have been in companies operating overseas; with the export trades coming next, then the industries producing capital equipment for the home market, and last of all those which produce consumer goods and are subject to price control. We really cannot say that high profits have been an important cause of the rise in the cost of living.

Taking the position as a whole, the effect on wages and salaries of a transfer from profits is much less than is usually appreciated. For example, if the dividends paid to shareholders after tax in 1950 had been reduced by a quarter—a fairly savage cut—and these sums used to increase wages and salaries, the average addition would have been 3d. in the pound, say 1s. 6d. a week for a man earning £6 a week. If it all went to wages and nothing to salaries at all, it would still only be about 4½d. in the pound.

A more even distribution of property has very little to do with any immediate improvement in living standards. Perhaps we should not exclude altogether from our considerations as one possible contribution (to our future policy) some form of partnership by the workers in individual firms or industries through, for example, the distribution of bonus shares reflecting the rise in undistributed profits. I throw it out as an idea.

From Address to the Trades Union Congress, September 1951

Wages and Prices

Can anyone seriously challenge the conclusion that wage and salary increases above any rise in productivity are passed on overwhelmingly in higher prices?

No doubt we could sustain without much damage quite a succession of wage and salary increases if productivity were rising very rapidly, if foreign trade conditions were favourable and, therefore, if each year there was a lot more to consume at home. But these conditions do not at present exist.

I do not accept the argument that a real wage increase is the counterpart of dividend limitation. It would be more in line with 100 per cent. excess profits tax, to which, in my view, there are equally valid, though quite different, objections to those that there are to a wage freeze.

We could on our own easily set off a new inflationary process. The plain fact is that the cost of living here will go on rising in 1952, even with stable world prices, if we go on pushing up our own costs through further substantial rises in wages and salaries.

Now for my last point, which is a familiar one—the overwhelming importance of production. No raw material shortage alters the fact that more coal, a quicker turn round of ships, more rapid and flexible methods on the railways and more productive use of labour in a score of industries from building to printing would give us a big lift forward.

OIL DEMAND MAY OUTPACE SUPPLY

If world consumption of oil continues to expand at anything like its present pace, U.S. demand in four years' time will not be far short of 10 million barrels a day, and that of other countries about 6.5 million barrels a day, giving a total well in excess of expected available supplies even under the most favourable conditions.

Total availability of oil in the whole of the free world is expected by the U.S. National Petroleum Council to rise to between 13.9 million and 16 million barrels a day by 1955.

Financial Times, September 1, 1951

AUSTRALIA EXPANDING JAPANESE TRADE

Trade between Australia and Japan during the year which ended on June 30 attained a record level of over £A75m. Japan is now Australia's fourth best customer and commerce between the two countries is likely to increase. Crockery, glass-ware, linen, cameras, binoculars, pearls and furs may be among the limited range of goods soon to be admitted to Australia from Japan for the first time since 1945.

For three years after the war Australia declined to trade with Japan but in 1948 Japan began to purchase Australian wool and wheat, while Australia found in Japan a source of the building materials—iron, steel, cement, timber, and insulators—she urgently needed. As the conclusion of a peace treaty approaches, Japan is insisting that Australia should take consumer goods as well, and the Commonwealth Government have announced that licences will soon be issued for a limited range of Japanese manufactures.

It was recently reported, however, that the largest chain store in Australia, which owns 145 shops, has decided not to sell Japanese toys or, if possible, other Japanese goods. Wholesale toy dealers in Victoria have also refused to handle Japanese toys because of their poor quality and because Empire producers cannot compete with Japanese prices.

From "Australia's Trade with Japan," Times Review of Industry, September 1951

Decline in Europeans' Will to Work

By P. J. D. Wiles (New College, Oxford)

This paper arose from an attempt in 1948 to throw light on the relative efficiency of labour in four countries. Inquiry was directed to firms operating in Britain and Belgium, Sweden or Switzerland, it being supposed that they were in an excellent position to make this sort of comparison.

Labour efficiency seems to consist of three elements: willingness or manageability; the amount of physical effort put in; and skill. Skill is chiefly—in the four countries that concern us at least—a matter of education, and we have tried to select data that eliminate it. But to compare the other two items, which for our purposes may be lumped together as the *will to work*, is to compare a part of the national character.

It appears certain that, climate apart, there are no *racial* differences in the will to work, only *national* ones. It is unquestionable, for instance, that all immigrants work harder in the New World than they did in the Old. But if is doubtful if any particular race shines most. It may, therefore, be concluded that most of the factors influencing labour efficiency are cultural, not biological. The Englishman dislikes the appearance of working more than work itself. Certain foreigners—Egyptians and Americans, for instance—are of the opposite temperament. The Englishman prefers to hurry, if at all, with dignity; he may be a better, because a more steady and continuous worker, than his "flashy" foreign counterpart.

We now turn to the facts about labour efficiency. Eighteen firms having branches in all or some of four countries (Britain, Sweden, Belgium and Switzerland) were questioned whether they considered their foreign labour more or less industrious than their British. Only one answered "less", one other "no difference".

Five firms measured Output per Man-Hour on a comparative basis, the results of which are tabulated as follows:—

Foreign P.M.H. as percentage of British

Firm	*Nationality*	*Notes*	*%*
A	Belgian		129
B	Swiss	1947	91
		Early 1948	83
C	Belgian	Process	
		(a)	121
		(b)	113
		(c)	125
		(d)	102
		(e)	113
D	Swedish	Process	
		(a)	141
		(b)	160
		(c)	142
		(d)	158
		(e)	140

Restrictive trade-union practices are unknown in Belgium, practically unknown in Switzerland, rare in Sweden. But they are very commonly complained of in Britain.

Summarised from "Notes on the Efficiency of Labour," Oxford Economic Papers June 1951

On the other hand, there is in all four countries a natural reluctance on the part of individuals to work overtime or shifts. Trade-union opposition to these things is most marked in Britain, but on the higher levels the British trade-union movement is easily the most advanced and co-operative. There is nothing to compare with the T.U.C.'s productivity drive in any of the other countries.

Nothing special emerges about discipline, absenteeism, punctuality. Afternoon and morning tea breaks are more common in Britain, which makes the most unfavourable impression on foreigners, even biasing their general picture of us. Tidiness and orderliness in the factory are most marked in Sweden, where it has probably been pushed beyond the point where negative returns set in. The Swiss have a high standard in this, the Belgians a low one. The British are a little lower still.

The quality of the welfare services provided seldom differed very significantly within one firm. Where it did, national character must be taken into account: Swedish workers insist on social services that Belgians would reject with contumely. In this scale Britons are nearer to Swedes and Swiss than Belgians.

The will to work may vary between districts in a country. Industrial opinion attributes a lower than average will to work to south-east England, Wallonia, French Switzerland.

Hours of Work

The "standard" working week for manual workers in each country gives us some idea of the hours a nation thinks ought to be worked. The figures for 1948 in the firms under discussion were: Britain, 44; All others, 48.

There were exceptions in each country, mainly progressive firms with shorter working weeks.

Shop opening times (small family shops only) were:

Britain: 9-5 or 6 with Sundays off and one half-day a week.

Sweden: 8 or 9-6 with Sundays off. Many shops shut at 3 on Saturdays.

Switzerland: 7.30-6.30, Saturdays 7.30-5 or 6, Sundays off.

Belgium: Any time to any time. No shop-hours regulations; closing times vary from 6 to 12. Sundays are off. Hours worked depend on the state of trade; they lengthen as trade worsens.

Office hours, although not affected by the state of trade, are subject to other exceptions. The "standard" week was: Britain, 40; All others, 44.

Progressive firms in all countries work fewer hours, and there is a tendency to work fewer hours in capital cities. The especially short hours of the London bureaucrat, however, are partly due to the uniquely long journey to work, which could make of him a distinctly hard-worked man.

Reasons for Decline

What conclusions, then, may we draw from this comparison? It seems safe to say that the will to work is strongest in Belgium and weakest in England. Of the intermediate countries perhaps Switzerland beats Sweden. But if we ask about the *efficiency* of labour, including elements of skill, while we have no reason to promote the British from bottom place, we may well wish to demote the Belgians to an equality with the rest.

It must be emphasised here that criticisms of British manual labour do not imply that British management is in some way better. It may be maintained that there has been a secular decline in the will to work in this country, among both managers and workers. And whereas treatment of the increased will to work at the beginning of the Industrial Revolution has become academically respectable, the subsequent decline has not yet been systematically treated. Little of the evidence available is satisfactory, but I list what has occurred to me.

(a) The mere shortening of workhours could certainly be dismissed as due to rising income; man has always wished to work less and now he can afford to. Once we are used to shorter hours we are unwilling to go back to longer, even on better terms.

(b) The lightening of the actual tasks performed is open to precisely the same comments, as is the drift into white-collar jobs out of manual labour and the drift out of hard, dirty and menial jobs while remaining within the field of manual labour. This phenomenon is common to many countries; in Britain and Belgium it is seen in the mines, in Switzerland in the lower grades of hotel worker.

(c) An explanation is offered by the Royal Commission on Labour of 1894: "The efficiency of the labourers at the present time is said to be less than it was and the result is attributed to the migration of the more active and intelligent labourers. Allowing for the habit of depreciating the present and exalting the past, it seems reasonable to suppose that if the class of agricultural labourers is continually drained in this way it must deteriorate." If it were merely a question of skill, the drift from the land might well be the sole cause, since it might well select the most intelligent. But it is much less clear that it would select the most industrious.

(d) Certain changes in social custom could indicate a growth of general idleness or "softness", though they could merely indicate a more advanced culture or greater humaneness.

(e) Flow production masks the decline in the will to work by leaving no choice. Of old confined to the textile industries, it has spread continually, leaving idleness less chance to show itself. This is also probably the explanation of the fact that there are fewer trade-union restrictive practices than there were.

I would attribute the secular decline generally to progress itself. It is not simply that technical progress makes shorter hours of work possible; it has many, many other effects on work.

To Sum Up

We may sum them all up by saying there is a rising *standard of living while at work;* a demand not only for shorter hours but for less heavy work, less dirty work, less discipline, more say in the management, more safety regulations, more breaks, more attractive surroundings, etc.

On the whole the standard of living while at work is higher in Britain than in the other three countries here considered: one might even say that it was higher than in U.S.A. In Britain it is far in advance of the degree of productivity, and from this unbalance stem many of our present griefs.

Americans' Attitude To Work

The Report of an Anglo-American Study Group is a Striking Commentary on the Previous Article

TO AID IN comparing industry in Britain and in the U.S. it is desirable that some attempt should be made to understand the reasons for and the development of that intangible factor, "attitude to work."

In the U.S., cartels, monopolies and price rings have been outlawed by the Government, so that real and sharp competition has developed between firms and this to a large extent has prevented any major rises in selling prices. The unions have pressed for and obtained a comparatively high wage level, but in this instance, as selling prices could not be raised to any appreciable extent, the manufacturers' only recourse has been to organise their factories to the highest possible degree of efficiency. Thus the purchasing power of the workers is much more closely related to selling prices than in Britain, and this in turn has stimulated trade with beneficial results to the community as a whole.

In this matter the employer is well supported by the union, which, by virtue of its domestic relations with one firm, and one firm only, has a special interest, since the success or failure of the company means the success or failure of the union. Awareness of such keen competition sharpens the interest of the men, and also the efficiency of the organisations.

Without ascribing any intent to the British unions, it follows that when more than one union operates in the same factory there is the danger, if great care is not taken, of varying interests conflicting, and cases are on record where disagreement between unions has affected production when no quarrel at all existed with the management.

A further significant point arising from this different approach is that a dismissed employee in U.S.A. has a greater opportunity of alternative employment in some other industry than in Britain. There is a tendency for a British craftsman to regard himself as tied to one particular trade and he is generally reluctant to change, this being due in no small measure to the fact that if he has served an apprenticeship to a particular craft he is unable to obtain membership of another craft union.

American workers are more mobile. The majority have their own cars and, therefore, employment outside the district, up to say 50 miles, seemingly presents no difficulty or obstacle. Even if movement to another area is involved, they have not so serious a housing problem as in Britain and, in any case, they will accept standards of housing much lower than the British, even to the extent of living in trailer caravans if necessary for a period.

Compared with British industrial wages on a time-work basis, the U.S. rates are about three to four times as high as corresponding rates in Britain. The cost of living in the U.S. is higher than in Britain and this offsets in a measure the higher wages. Nevertheless, the American employee is much better off than the British worker.

Standard working week: The normal working week observed in

From Productivity Report on Welding, Anglo-American Council on Productivity 29 August, 1951

the U.S. for both factory and office staffs is 40 hours spread over five days.

Limitations on overtime (which is optional) do not appear to receive less attention in the U.S. than in Britain. In some of the agreements a limitation is imposed, and it would seem that the number of hours permitted as a rule is sixteen per seven days. In other agreements no reference is made to this matter.

The question of incentives is complex and subtle. The idea of the average Briton that " more work, more pay " is the rule in America is incorrect. The reason for output must be sought elsewhere.

The American demands a high standard of living and will go to great lengths to achieve it. Certain standards are taken for granted: these normally include a car, refrigerator, television and wireless sets, and a washing machine.

Hire purchase figures prominently in these deals and the efforts put forward are perhaps not so much to buy new articles as to pay off articles already possessed.

To supplement the income necessary for luxury purchases, one gathered that a large proportion of the men and their wives were gainfully employed in spare-time occupations. This probably explains why cultivated gardens and allotments were little in evidence.

Well stocked shops, purveying anything one could wish for, and places of entertainment, are open well into the night. A worker has ample opportunity to make purchases outside his working hours, which serves to further his desire to earn money.

AMERICAN AVERAGE INCOME

Americans averaged an income of $1,436 for each man, woman and child in 1950. This average represented a gain of $116, or 9 per cent., over 1949 and was the highest dollar total in history.

The 9 per cent. rise in average income outstripped the 6.5 per cent. advance in the cost of living recorded by the Bureau of Labour Statistics for 1950, but a rise in the tax burden cut down the net gain.

The burden of Federal, State and local taxes averaged $360 during the twelve months ended June 30, 1950, the latest period for which official data are available. The rate increases late last year made it heavier for the calendar year 1950.

The averages undoubtedly are pulled up by the large incomes of multi-millionaires and others.

Today's report did not deal in medians. But a report in 1949 based on census studies said that if the 50,000,000 American families were lined up in order of income and then counted off to the middle, that " median " family would have an income of $3,420. The figure is probably higher now, but nothing like $1,436 for each man, woman and child.

Average incomes ranged from $698 in Mississippi to $1,909 in Delaware and $1,986 in the District of Columbia.

Near the bottom were Arkansas, $825; South Carolina, $831, and Alabama, $836. Near the top were Nevada, $1,875; New York, $1,864, and Connecticut, $1,766.

The total flow of income to individuals over the nation was a record $217,000,000,000, a gain of 11 per cent. over 1949. The increase in the average income was less because of the gain in the population.

By regions, the largest relative gains were scored by the agricultural North-west and South-west, 14 and 12 per cent. respectively. The Central and Far West regions matched the national average with an 11 per cent. rise. New England and the Middle East scored a 10 per cent. gain.

New York Times, 19 August, 1951

Revised Version of the Rhys-Williams Social Security Proposals

By Lady Rhys-Williams, D.B.E.

The Royal Commission posed this question: *Would it be advantageous to link Income Tax with Social Security payments and contributions?*

Answering that question in the affirmative, Lady Rhys-Williams's first memorandum presented an up-to-date version of the scheme first propounded in her book, *Something to Look Forward To* (1943) and later re-stated with new statistics from time to time (see *Economic Digest, November* 1948).

Following oral examination by the Royal Commission, Lady Rhys-Williams submitted her final memorandum, amplifying earlier evidence and incorporating figures agreed with the Inland Revenue department. The final memorandum presented four variations, namely:

(A) represents a revised version of the proposals originally submitted to the Commission for a 10/- universal weekly distribution, with 10/- subtracted from the existing National Insurance benefits and pensions when these are applied for. The tables show a deficit balance of revenue of £23 millions in a budget of £3197 millions. The basic tax involved is 4/7 in the £.

(B) represents an attempt to provide higher allowances for children in accordance with the recommendations of Professor Titmuss (see page 414 of *Economic Digest*, Sept. 1951). Here the deficit is £22 millions in a budget of £3202 millions. The basic tax involved is 4/8 in the £.

(C) is merely concerned to show the effect of reducing both weekly allowances and rates of tax, to 9/- and 4/4 respectively. The deficit balance is £39 millions in a budget of £3111 millions.

(D) is set forth more completely below, since this scheme seems to be the logical end of the road on which the author embarked eighteen years ago, and likely to be the focal point of future discussion by economists and sociologists.

Recommended Plan

" Although this version may be technically outside the terms of reference of the Royal Commission, since it cannot be made to balance without a further contribution of £50 million from the Exchequer (or, as I suggest, from the employer), I hope that it may receive consideration, since it is in my view much the most satisfactory of the four schemes, inasmuch as it satisfies the demands, already being voiced by the Railwaymen's Union, for pensions of £3 a week per married couple for all classes of pensioners. In complying with this demand, it fulfils the needs for a genuine system of pensions at a true subsistence level to be included within the original list of social benefits covered by the comprehensive " Giant Insurance " system, and

From Final Memorandum presented to the Royal Commission on Taxation by Lady Rhys-Williams, July, 1951

allows the National Assistance Board to revert to the role of emergency helper of special cases for which it was originally designed in the Beveridge Report.

"The proposal is to have a scheme based upon a 9/- weekly distribution to all. The existing insurance benefits of 26/- a week would be payable in addition to the 9/- a week. The cost of this addition to the present scale of benefits and pensions is £197 million, but all but £50 million of this addition is absorbed by the scheme, as is shown in the tables attached.

(*Continued on page* 439)

TABLE I

REVISED SCHEME TO PRODUCE AN APPROXIMATE BALANCE BETWEEN REVENUE AND EXPENDITURE

(The computations have been agreed with the Inland Revenue Department)

SCHEME 'D' 4/7d. TAX—9/- DISTRIBUTION

REVENUE	£m	£m
Income Tax		
At 4/7 on £8,150 m. of earned income	1,867	
At 6/– on 1,367 m. of unearned income ...	410	
At 6/– on 975 m. of undistributed profits (£1,025 less £50 in increased Employers' Contribution)	292	
	2,569	
Less Rebates on Life Insurance, Tools and Clothing	90	
		2,479
Supplementary Taxes and Surtax		
At 3/– on £900 m. of earned income above £600	135	
At 3/– on 450 m. of unearned income above £600	67	
At 3/– on 975 m. of undistributed profits ...	146	
Surtax at present rates above £2,000	125	
		473
Employers' Contribution		248
Deficit Balance		29
		3,229
EXPENDITURE		
Personal Allowances of 9/- p.w. for 39.0 m. adults	913	
Children's Allowances of 7/6 p.w. for 6.6 m. 1st children	129	
Children's Allowances of 9/- p.w. for 4.8 m. later children	112	
		1,154
Supplementary Allowances and Pensions	403	
Plus 9/- per head per week for 6.77 m. pensioners		
1.65 m. sick & unemployed		
8.42 m. persons ...	197	
	600	
Less estimated saving on National Assistance ...	52	
		548
National Health Service		358
Anti-inflation Tax (Contribution to Insurance Fund increase)		171
Contribution to General Government expenditure		998
		3,229

TABLE II

(1950-51 Basis)

THE SCHEME CONSIDERED AS A COMPLETE SOCIAL INSURANCE SYSTEM INCLUDING ALL FORMS OF SOCIAL BENEFITS PROVIDED TO THE INDIVIDUAL BY THE STATE

SCHEME 'D'

	£m	£m
REVENUE OF SOCIAL INSURANCE SYSTEM		
Net Social Insurance Contribution (See Table I) ...	2,479	
Employers' Contribution (including £50 m. extra) ...	248	
		2,727
Deficit Balance		4
		2,731
EXPENDITURE ON SOCIAL SERVICES AND BENEFITS		
Personal and Children's Allowances (See Table I) ...	1,154	
Supplementary Allowances and Pensions (See Table I)	548	
National Health Service	358	
		2,060
Food Subsidies	400	
Grants to Local Authorities for Health Services ...	20	
Grants to Local Authorities for Child Care	8	
Grants to Local Authorities for Education Services ...	243	
		671
		2,731

SUPPLEMENTARY INCOME TAX BUDGET

REVENUE		
Supplementary Taxes above £600	473	
Plus Deficit Balance ...	25	
		498
EXPENDITURE		
Anti-Inflation Tax	171	
Contribution to General Government expenditure ... (£998 less £671 shown above).	327	
		498

(*Total Deficit*: £29 million)

TABLE III (EXTRACTS)

This table sets forth in detail the difference between present net incomes and net incomes under the scheme advocated. Extracts from this table (dealing with *earned* income) are given below.

Gross Annual Income — (*a*) *Now* (*b*) *Under scheme proposed** (*c*) *Net change*

Income £	*Single Person* (*a*)	(*b*)	(*c*)	*Married Couple, 1 Child* (*a*)	(*b*)	(*c*)	*Married Couple, 3 Children* (*a*)	(*b*)	(*c*)
200	182	177.5	– 4.5	187	220.5	+ 33.5	213	267.5	+ 54.5
400	343	331.5	– 11.5	375	374.5	– 0.5	413	421.5	+ 8.5
600	480	486	+ 6	535	529	– 6	586	576.5	– 9.5
800	608	610.5	+ 2.5	667	668.5	+ 1.5	737	730.5	– 6.5
1000	736	734.5	– 1.5	795	792.5	– 2.5	865	869.5	+ 4.5
2000	1376	1355.5	– 20.5	1435	1413.5	– 21.5	1503	1490.5	– 12.5
5000	2516	2707.5	+ 191.5	2575	2765.5	+ 190.5	2636	2842.5	+ 206.5

* Pensions at 60 (women) and 65 (men), and sickness, unemployment and other benefits as under National Insurance scheme, would be payable *in addition to* the 9/- weekly benefit (making £3 for man and wife). These benefits would be paid not only for existing beneficiaries, but for all persons upon entering the age groups or categories concerned, without means test or obligation to cease employment.

Problem Families

'Under the existing flat-rate insurance system the employers' contribution on the basis of one third of the cost would be, not £50, but £65 million. The workers' contributions would also have to rise substantially, which, on the present poll-tax basis, would add to the existing severe hardships at the lower income levels, particularly among families with several children. This might have the very undesirable effect of pushing a yet larger section of the poorest families into the "problem family" group, where self-respect and efforts to improve matters are abandoned by the parents, owing to the prolonged discouragement of dire poverty and insufficient food. All social workers will testify to the fact that successful efforts to win back to normal life this basic "problem" class, from which most of the criminal and degenerate types are derived, demand an increase and not a decrease in the parents' weekly income.

'Under scheme "D," although both the contributors' and the state's share of the extra cost of pensions is absorbed by the income tax system without any increase in the rate of basic tax above the levels of Scheme "A," yet the larger incomes for those in the "problem family" class are still provided, increases in contributions being limited to those who can best afford to pay them. This socially - speaking essential discrimination in the degree of sacrifice which higher old age pen-

TABLE IV

ESTIMATE OF ADDITIONAL SAVINGS LIKELY TO RESULT FROM THE SCHEME

The principle savings envisaged are:—

	(£ 000)	(£ 000)
1. Abolition of the Ministry of National Insurance ...	14,723	
2. Abolition of the Ministry of Pensions	3,968	
3. Saving in the Inland Revenue Department	4,500	
4. Saving on the Stationery Office Vote owing to the cancellation of Code-books and National Insurance Forms	750	
	21,941	
Plus: Increased Revenue arising from Saving to industry through the abolition of Coding regulations and Insurance Cards. (Saving estimated at £12 million) Income Tax at 9/- on £12 million	5,400	
		27,341
ESTIMATED INCREASE IN EXPENDITURE LIKELY TO BE REQUIRED BY THESE CHANGES		
1. Ministry of Health, for administration of Sickness Benefit	1,000	
2. Ministry of Labour for administration of Unemployment Benefit	1,000	
3. Ministry of Food, for distribution of all books of weekly coupons through existing local offices ...	3,000	
4. Post Office for additional services	2,000	
5. Additional cost to Service Ministries of assessing pensions	1,000	
6. Stationery Office for printing coupon books ...	341	
	8,341	8,341
Net Saving		**£19 million**

sions must involve might be misunderstood or resented if it resulted from deliberate changes in rates of payment or benefit affecting the particular classes of individuals singled out for higher taxation. But if the discrimination in favour of the poorest families is effected, as it is in the case of Scheme "D" by the simple operation of a blind formula, which all can understand and calculate for themselves, the social redistribution of the insurance burden is more likely to prove acceptable to those, chiefly single persons without dependents, who must suffer increased taxation. In any case, the amount of extra burden on any one person is small.'

(Possible variations of the Rhys-Williams plan are infinite. Some readers, especially politicians, may like to know that one variation that has been drafted—Scheme E—provides for a 4/- tax and an 8/- distribution. It works out with attractive tidiness. A few copies are available for readers who are specially interested—Editors, E. D.)

WORLD POPULATION'S VAST INCREASE

Dr. S. Swaroop, Statistics Chief of World Health Organisation

The world's population is now increasing at the rate of 60,000 per day. It has nearly quadrupled in the last three centuries, and two-thirds of this increase has taken place within the last century. The world's population in 1949 was 2,378,000,000 as compared with 1,552,000,000 in 1900—an increase of 826,000,000.

Of the 52 countries listed, only one—the Republic of Ireland—has actually shown a decrease (7 per cent) during the period 1900-1949. There, the population went down from 3,200,000 to 3,000,000. The largest percentage increase among all the countries listed was registered in Argentina, where the population rose from 4,800,000 in 1900 to 16,800,000 in 1949. Argentina is followed by Cuba (231 per cent), Colombia (217 per cent) and Brazil (191 per cent).

On the whole, the American continents have recorded the greatest relative increase during the past 50 years. This rise amounted to about 112 per cent, the 1949 population being estimated at 320,800,000 as compared with 151,000,000 in 1900.

The rate of increase has been slower in Europe than anywhere else. The population of Europe rose only 36 per cent (not including the USSR) during the half century under review. Estimated at 288,000,000 in 1900 Europe's population had grown to approximately 392,000,000 by 1949.

What is today the USSR had a population in 1900 which was less than half as large as that of the rest of Europe, but in the past 50 years around 74,000,000 have been added and the USSR at present has a population of 200,000,000.

The greatest increase in Europe, outside the USSR, was recorded in Italy.

In Oceania the population rose 100 per cent and was up to 12,400,000 in 1949, while in Africa the percentage increase was 41. The African population in 1949 was estimated at 197,900,000 as against 140,700,000 in 1900.

Half of the world's total increase has been contributed by Asian countries alone. Although some of the smaller countries, such as Indonesia, the Philippines and Thailand, recorded increases of well over 100 per cent, the two large countries—China and pre-partition India—increased relatively slowly at rates of approximately 30 per cent and 49 per cent, respectively. Yet their contribution to the total world increase is almost one-third, although some of the population estimates are not always reliable.

From W. H. O. Epidemiological and Vital Statistics Report, United Nations, Geneva, July 26, 1951

Fair Shares of Inflation

The upward trend of prices will continue for as far ahead as human wisdom can see. We must then bow to the inevitable and create a whole "Non-Euclidean" financial system. We have made our inflationary bed and we must lie on it; but we might as well be comfortable.

1. The replacement of fixed assets and of stock-in-trade must be freed of income tax.

2. We should tie *most* constituents of wages to *some* cost of living index.

3. Salaries should be similarly treated, that is tied to a cost of living index, but in such a way as slightly to lag behind it.

4. The same applies to social services and state pensions.

5. Private enterprise and the nationalised industries should certainly be allowed to link debenture interest and capital to the cost of living if they wish. Indeed it is strange that this has not already been done: a debenture with the capital guaranteed in this way should logically be issuable at par, may well over par, for zero per cent. Such bonds would provide another logical form of trustee security; with dividend limitation a more logical form. There is an especially good case for doing the same for National Savings, which should become the poor man's equity. Such measures would encourage savings and therefore be deflationary, not, as it first appears, inflationary.

6. We shall not be able to go on repudiating our foreign debt for ever, though it is remarkable how the sterling area has so far held together in face of the perpetual depreciation of the sterling balances. One day—may it be long distant—our foreign creditors will all imitate Argentina and insist on a price index clause in trade agreements. We cannot in justice deny them this, and would benefit equally ourselves from the operation of such a clause on foreign currencies.

7. There should be a new basis for most kinds of insurance. At present the insurance contract is of the form "I pay the Company a fixed sum annually, and when I die or retire or the untoward event happens, it pays me a fixed sum, which it hopes will be covered by my premiums." We should substitute where possible a contract of the form "I pay the Company an annual premium increasing yearly with the cost of living and it promises me a sum that increases in the same way." By the present method all insurance is biased against the insured, who pay in good money to receive bad.

8. An increase in rates of interest is often advocated. While this might be a brake on the rate of rise in prices, it could hardly by itself outweigh the immense array of inflationary influences. It is ridiculous to suppose that any tolerable rate of interest would prevent aggregate demand from exceeding aggregate supply. We may hazard the guess that, unaccompanied by a wage and price stop, no Bank Rate under 6 per cent. would keep prices down; and this rate would have to be permanent. Above all, it is false

From "Agenda for the Age of Inflation," The Economist, August 25 and September 1, 1951

that interest rates deflate painlessly. They deflate, as does any measure, by causing unemployment and taking money out of people's pockets. The demand, nay the absolute necessity, for output of all kinds is so great today that a volume of unemployment sufficient to keep down prices would not be tolerated on grounds of public policy, let alone grounds of humanity.

But this is not to say that interest rates should not be higher for quite another reason. Principally we need a high rate to enable us to dispense with rationing and controls in the capital market. There is also the remarkable fact that the "real" rate of interest on both short and long bonds is negative: that is to say that an investment which accumulates at 5 per cent. compound loses purchasing power because prices rise by more than 5 per cent. compound. It thus pays people to indebt themselves at fixed interests—if they can find a lender —merely in order to hold goods. This state of affairs is both irrational and inflationary.

Equal Cheating

If there is no frank recognition of facts and no general plan, the best organised groups will win and the devil will take the hindmost. The present suggestions would not open the floodgates—the floodgates are already open—they would regulate the flow. Indeed, they expressly provide for certain lags. Their effect would be that all parties would be cheated equally, whereas at present some are not cheated at all and others are expropriated. Other measures would not affect prices at all; indeed, the linking of bond interest to the cost of living might help to keep prices down.

It is true that rising prices have recently been the chief agent for redistributing income from rich to poor, and it is true that the measures suggested would put an end to this process. It is not often understood how strongly inflation redistributes income and how little is the effect of taxation. Thus, the national income was distributed among the various classes of the population in 1938 and 1949 in the following percentages *before tax*:

	1938	1949
Wages	37	45
Salaries	24	24
Armed Forces pay	2	3
Rents, dividends and interest	37	28

and *after tax*:

	1938	1949
Wages	39	48
Salaries	25	24
Armed Forces pay	2	3
Rents, dividends and interest	34	25

It is in the inconveniences, inequities and disappointments of millions of individual transactions that the chief curse of rising prices lies. It is unjust that Mrs. Jones lives in a "free" house while her neighbour's identical house is rent controlled. It is unjust that capitalist "A" who happened to buy industrial equities before the war is as rich as ever while his friend "B" happened to invest in houses that were subsequently controlled and has lost everything. It is unjust that one pensioner should be drawing a sum from the Ministry of Pensions for his 1917 wound based on 1922 prices, while another draws from the Ministry of National Insurance a pension for his industrial injury in 1944 based on 1945 prices. All compulsory private pension schemes are unjust. It is a

national disgrace that no charity can keep the purchasing power of its investment income intact.

We cannot have monetary stability, so let us have the next best thing—a series of new economic habits and minor accounting adjustments that take the sting out of instability, and enable both governmental and private economic planning to be rational.

A Criticism

The Economist of September 8, 1951, comments:

If modern liberal civilisation were to become so committed to inflation as the articles suggest, then how it can be made less uncomfortable is not the only question to be asked. There is the question whether such a civilisation can survive . . . The proposition that inflation is inevitable is not an acknowledgment of economic determinism but a political judgment that the will to control inflation has disappeared. Six years of post-war experience seem an inadequate basis for quite so pessimistic a conclusion. The brave new economic planning is surely not a robot that has already completely mastered its creators. The political will is obviously and lamentably weak, but the right course for those who see realistically the strength of inflation is not to accept its inevitability. It is still to do—with however a sinking heart—all that can be done to strengthen the will to stop inflation before it is too late.

TORRENT OF DOLLAR AID

Probably few citizens realize how much our Government has already delivered to the rest of the world. The Marshall Plan accounts for only a small part of the total. A recent study by the Chamber of Commerce of the United States shows that about \$50 billion was sent abroad immediately before and during World War II. About \$40 billion more has been sent since the war. The \$8.5 billion programme for the current fiscal year would bring the total to about \$100 billion, and the \$25 billion figure proposed by Secretary Acheson would raise it to something like \$115 billion or \$120 billion. No end is in sight.

Guaranty Survey, Guaranty Trust Company of New York, September 1951

U.S.A. TAX BURDEN IN 1950

A record total of \$54.6 billion in taxes, equivalent to nearly 23 per cent. of the national income last year, was paid into Federal, State and local government treasuries during fiscal years ended in 1950 (in most cases June 30), according to a report made public in August by the Bureau of the Census.

Guaranty Survey, Guaranty Trust Company of New York, September 1951

A report by economists recently published by the *Twentieth Century Fund* in U.S.A. estimates that if the tax laws were more rigorously enforced some \$1,000 million (£360 million) a year could be added to the yield, for an addition of less than \$10 million (£3.6 million) in costs of administration.

Accountancy, London, September 1951

PERON COMPENSATES MEAT-PACKERS

The *Instituto Argentino de Promoción del Intercambio* has been authorized to compensate meat-packing companies for losses incurred between 1 September, 1950, and 30 June, 1951, as a result of the suspension of shipments of Argentine meat to the United Kingdom. The preamble to the decree mentioned that the interruption of shipments to Britain changed the destination of the meat and that, in some cases, the activities of the meat-packing companies had at times come almost to a standstill. Since the labour laws prevented dismissals of staff, the packers had suffered losses which, being a consequence of the export policy of the Government, should be made good by the State.

Fortnightly Review, Bank of London and S. America, London, August 11, 1951

Across the Iron Curtain:

West Germany's Trade and Prospects

By Dr. Erwin Weghorn

The sharpest change in the orientation of foreign trade in eastern Europe has arisen through Russia's attempts to take the place of Germany both as supplier of, and market for, goods.

In 1937 about a seventh of German exports went to eastern Europe. Poland received 17 per cent. of its imports from Germany. In the rest of eastern countries the proportions were similar: Czechoslovakia 17 per cent., Hungary 26 per cent., Rumania 29 per cent., Jugoslavia 32 per cent., Bulgaria 55 per cent. And on the other hand Germany's share of the exports of these countries in 1937 lay between 15 per cent. and 43 per cent. of their total export (Czechoslovakia and Poland 15 per cent. each, Rumania 19 per cent., Jugoslavia 22 per cent., Hungary 25 per cent. and Bulgaria 43 per cent.).

Immediately after the war the industrial needs of the east-European States were satisfied in part by UNRRA and in part through credits from the Western Allies. Germany was eliminated from the eastern market completely, so that in 1948 the German-Bulgarian and Germany - Polish trade had not reached a hundredth of the pre-war size. In the same year Germany's share of Czech trade was about 2 per cent, and of Polish trade about 6 per cent. Poland, for instance, resolutely declined to allow a return to the pre-war position of East-European trade, as far as Germany's economy was concerned.

As Germany's importance as a trading partner sank, that of the USSR rose. Russia's share of the area's trade, both import and export, rose from less than 1 per cent. in 1937 to over 15 per cent. in 1948. In the latter year the USSR supplied 15 per cent. of the Hungarian, 16 per cent. of the Czech and 23 per cent. of the Polish import trade. These shares were enhanced to as much as 30 per cent. in the case of Bulgaria, and 60 per cent. in the case of Rumania, whilst supplies to Jugoslavia reached only 11 per cent. of total imports. Russia's part in exports amounted at the same period to between 16 per cent. (Czechoslovakia, Hungary), 20 per cent. (Poland, Rumania, Jugoslavia) and 48 per cent. (Bulgaria). While in 1937 the eastern countries imported goods to the value of no more than $7 million from the USSR, by 1947 this value had already risen to $214 million. The development of eastern exports to the USSR is shown by the figures:

1937: $14 million.
1947: $188 million.

At a rough valuation, the imports of the eastern States (ex-

From "State Trading in Eastern Europe," in Europa Archiv, Frankfurt-am-Main, 12 July, 1951

cluding Jugoslavia) are suggested as being of the magnitude of $635 million in 1949, and their exports to the USSR as being $585 million.

Before the second world war the eastern States could show an export surplus with the Soviet Union; in the post-war years this situation has completely reversed. This reversal has strengthened the position of the USSR as supplier of capital. Russia allows credits at low rates of interest and at long-term amortisation specifically for the realisation of long-term economic plans. Russia supplies not only raw materials (cotton, flax, petroleum products, ores) but also metals, machines, vehicles and even foodstuffs. In return she receives chiefly coal, coke, chemicals, textiles, leather goods and often machinery as well.

Future Prospects

Eastern Europe is, nevertheless, still a market for Germany today—because neither the USSR, nor the system of international trade within the eastern area, nor the efforts of the Council for Mutual Economic Aid (Molotov Plan), have succeeded in satisfying to the full the industrial and consumer-goods needs of the area. There were, therefore, in 1948-9, a large number of trade agreements between Western Germany and the east-European States, so that the way was paved for the foreign trade development in the table below:

In particular, West German trade with Jugoslavia has increased: next in order of developing importance is that with Hungary and Czechoslovakia. The USSR, Bulgaria and Rumania have only arrived at very occasional settlements with the West German Republic. German economic experts are, however, of the opinion that this need not be a permanent state of affairs, because the needs of eastern Europe will become all the greater both in variety of goods and in urgency,

WEST GERMAN IMPORTS

(Monthly Averages in $ Thousand)

	Jan-Sept 1949	*Oct-Dec* 1949	*Jan-Mar* 1950	*April-June* 1950
Bulgaria	184	421	45	70
Jugoslavia	340	1854	2286	1136
Poland	2115	4798	1025	479
Rumania	48	241	43	149
USSR	85	4	28	5
Czechoslovakia	2333	1297	2039	1558
Hungary ...	1705	2839	976	2291
	6810	11454	6442	5688

WEST GERMAN EXPORTS

Bulgaria	36	146	245	407
Jugoslavia	585	3366	3162	3996
Poland	873	727	962	1388
Rumania	35	206	206	320
USSR	0	0	0	0
Czechoslovakia	1036	1507	1246	1314
Hungary	916	2525	2703	3094
	3481	8477	8524	10519

the more they press on with their plans for industrialisation. Jugoslavia and Hungary, which already get 50 per cent. of their national income from industry, may afford proof of this.

Trade Agreements

At the beginning of 1951 the following trade agreements were in force between Germany and eastern Europe:

Albania: Nil.

Bulgaria: No trade agreement, but a Protocol of November 7, 1950, on the subject of new lists of goods in trade, which was given force retrospectively to July 1, 1950, laid down imports into Germany to the value of $6.5 million, and exports to Bulgaria of $4.5 million. In the Protocol, Bulgaria engages to supply agricultural produce chiefly. In return she shall receive machinery and also electric plant.

Jugoslavia: On November 1, 1950, a Protocol was signed supplementary to the trade agreement of March 31, 1949, which concluded a long-term economic treaty on a credit basis. Under this agreement Jugoslavia receives chiefly complete industrial plants and industrial goods to the value of $35 million, of which $30 million will be credited by Germany. Between 1953 and 1955 repayment must be made: Jugoslavia is to supply chiefly grain, meat, ores, metals, mineral oil and timber.

Poland: A Protocol signed October 9, 1950, laid down new lists of goods for the economic year year ending July 30, 1951, and evidenced an exchange of goods to the value of $32.6 million. Poland is to supply grain, sugar, eggs, pork, coal, timber and paper, and to receive machinery, chemicals, electrical tools, cars and iron products.

Rumania: No trade settlement. At most, only a few barter transactions are carried out, the total value of which is relatively unimportant.

Czechoslovakia: The trade agreement concluded on December 21, 1950, foresees an exchange of goods worth $30.1 million on both sides of the account. Germany will receive agricultural and industrial produce in equal portions, and export in return machinery, motor vehicles, pharmaceuticals and chemicals.

Hungary: On November 22, 1950, a new trade treaty was promulgated, providing for an exchange of goods to the value of $66 million. Hungary is to supply chiefly agricultural produce and receive iron, steel, machinery and chemicals.

SULPHUR FROM ANHYDRITE

Arrangements for financing the United Sulphuric Acid Corporation Ltd., which is to produce sulphuric acid from indigenous deposits of anhydrite, have now been completed. The Company was formed last April to erect and operate a plant which is expected to be in operation inside of four years, when it should provide some 150,000 tons annually. Anhydrite, the raw material required, is available in many places in this country. The last figure we have for anhydrite production in Great Britain, given in the Westwood Report was 911,814 tons in 1948. Reserves in the Billingham (Durham) area are there stated to be at least 75,000,000 tons with many million tons elsewhere — altogether adequate supplies for many years to come.

Mining Journal, London August 24, 1951

China Takes Over in Tibet

The Communist rulers of China have accomplished in record time what various Emperors in the past failed or did not care to do. The new rulers have not only completed the military occupation of Tibet, but have lost no time in undertaking the task of development and modernisation. Immediately after the signing of a treaty, Pekin despatched a team of 47 experts to survey the new territory. It was led by a geologist and included agriculturists and meteorologists. The Chando-Lhasa road has been already completed; and work on a 800-mile road from Lhasa to the borders of Garhwal is proceeding apace. Nine Chinese technicians have recently left Peking for Tibet. Their first task will be to install radio stations at Yatung and Gyantse, linking these two towns with Lhasa. They will eventually build a network of radio stations.

Shadow Over India

So Tibet ceases to be the land of mystery, free, remote, forbidden, incomprehensible, and slips behind the Iron Curtain as part of New China. And for the first time we realise how close Communist China is to India. The liberation army, according to a report published in a local contemporary, has been distributed over the whole of Western Tibet and posted at all the important market towns—at Taklakot, only eight miles across the Indian border; at Tarchen, at the foot of Mount Kailas; at Barkha, near the holy lakes of Mansarover and Rakas Tal, in the centre of the northern plain; at Rudok, the headquarters of the northern goldbearing district of the same name; at Gartok, the capital of Western Tibet (which is the headquarters of the Indian Trade Commissioner).

What is more significant is Pekin's tightening grip over the country's trade and administration. It is reported that local officials have in many cases been replaced. Also Chinese currency has been put into circulation in place of Tibetan currency and Indian currency which also used to circulate freely before. This is believed to be producing an adverse effect on Indo-Tibetan trade, for the Indian rupee has been the principal medium of exchange up till now. It is further reported that the Chinese are trying to introduce State control of all raw materials. Tibetan export trade chiefly consists of wool, hides and skins, and borax, wool being the most important item. It seems that orders have been issued prohibiting the sale of wool to any private trader; all wool must be sold to the Government. India imports normally between fifteen and seventeen thousand maunds of wool a year from Tibet, and the new order will naturally affect this trade. This, however, was not wholly unexpected under a Communist regime. Various statements issued from Peking suggest that the Central Government is anxious to control and develop Tibet's economic resources, which have not so far been properly surveyed and exploited, for the benefit of the people; and it may be expected to introduce increasingly such measures as will transfer business from private to public ownership.

From Eastern Economist, New Delhi, August 31, 1951

BRITISH BANKERS ASSOCIATION EVIDENCE TO ROYAL COMMISSION ON TAXATION

Erosion of Britain's Liquid Assets

IN BUSINESS CIRCLES, it is widely believed that in recent years the weight of taxation has in fact seriously depleted the liquid reserves of most trading concerns. The Commission will doubtless wish us to show how far that view is substantiated by the evidence at our disposal.

In 1945 the economy emerged from the war period in a highly liquid condition. Taken together, clearing bank deposits and the currency and note circulation in the hands of the public were very much higher than in 1938, not only in absolute terms but also in relation to the current level of national income. In addition, and in spite of 100 per cent. E.P.T., industry as a whole had accumulated substantial reserves of gilt-edged securities, largely as a result of the wartime stoppage of all but the most essential private capital expenditure and of the transfer into Government hands of commodity stocks formerly privately held. Further large additions to the volume of bank deposits were made during the "cheap money drive" of 1946 and in the following year. From the spring of 1948, however, the volume of bank credit remained very stable until the large influx of overseas funds in the autumn of 1950, when the upward trend appears to have been resumed. Meanwhile, both prices and the volume of output have been rising, so that the national income has continued to show a marked expansion. This is, of course, only another way of saying that a steadily growing volume of transactions has had to be financed by a roughly stable money stock, a process which involves a reduction in liquidity, as reflected in rising yields on gilt-edged securities and increased industrial and other borrowing from the banks.

Personal Balances Up

The six-monthly returns of the clearing banks clearly demonstrate that a marked shift in the ownership of net bank deposits in favour of persons has been in progress for some years past. The proportion of personal balances was already rising during the war years and between June, 1946, and June, 1950, further increased from 33.8 per cent. to 38.9 per cent., a similar trend being shown by the December returns. This means that since 1946 the net balances of depositors other than persons have in fact declined. Between December, 1946, and December, 1950, clearing bank deposits net of advances rose on balance by no more than £19 millions, but since net personal deposits expanded by £174 millions it follows that "other deposits" actually

From Memorandum of the British Bankers Association to the Royal Commission on the Taxation of Profits and Income, July 1951

fell by £155 millions. Between 1946 and 1950, in other words, non-personal depositors with the clearing banks experienced in the aggregate an actual diminution in the net balances at their disposal, although the "production account of the United Kingdom" shows an increase between those years of over 40 per cent. in the turnover to be financed. (Cmd. 8203; Table 33, Item 10).

Statistical Inquiry

To throw more direct light on the changes in the liquid position of business during the post-war period, a special enquiry was undertaken in which a number of banks participated. Consolidated figures of unnamed private companies were supplied for this purpose, as it was felt that—apart from unincorporated businesses in which the partners are subject to surtax—it is the small and medium-sized private companies with a capital up to, say £100,000 which are likely to be most adversely affected by taxation. Altogether, a sample of more than 1,500 companies was analysed, including 200 analysed by the Scottish banks.

No similar statistics have been taken out in respect of unincorporated businesses in which the owners or partners are subject to surtax, but it is the experience of the banks that the pressure of taxation on these unincorporated businesses is even greater than in the case of incorporated businesses, so that the conclusions below are applicable in even greater degree to businesses carried on by individuals or partnerships.

The main results of the enquiry are summarised thus:—

LIABILITIES	1946 £'000s.	1949 or 1950 £'000s.
Capital	47,957	56,198
Reserves	33,636	58,859
Bank overdraft	13,998	30,589
Creditors and bills payable	49,662	69,415
Total of above liabilities	145,253	215,061

ASSETS	1946 £'000s.	1949 or 1950 £'000s.
Cash	9,958	8,974
Marketable securities	8,706	5,137
Debtors and bills receivable	39,160	65,486
Stock	44,893	90,586
Total of above assets	102,717	170,183
Other assets (net) ...	42,536	44,878
	145,253	215,061

This composite statement shows that over the period the companies included in the sample had to finance an increase of £45,693,000 in stocks, and a net decrease of £6,573,000 in trade credit received, making a total of £52,266,000. This was covered to the extent of only £8,241,000 by an increase in capital. In recent years, however, gross profit margins have been abnormally wide as a result of inflation (a large part of the nominal profits being in fact spurious and merely a reflection of the rising replacement costs of fixed and circulating capital). Although both genuine and spurious profits have borne heavy taxation, the companies in the sample were nevertheless able to add £25,223,000 to their reserves, so that altogether £33,464,000 (64 per cent. of the amount needed or 73 per cent. of the increase in stocks) was made available by the growth in the companies' own capital resources. A further £4,553,000 was derived

from the running down of cash and securities. In all, therefore, sums found from the companies' own resources amounted to £38,017,000 (equivalent to 73 per cent. of the total needed, or 83 per cent. of the growth in stocks). Borrowing from the banks of £16,591,000 (making a total deterioration of £21,144,000 in the liquid position) provided the balance of the amount needed for the purposes mentioned, with a margin of £2,342,000 in hand to finance an increase in other assets.

It will be appreciated that the formula used for this analysis covered only the liquid and current assets and similarly excluded certain items on the liabilities side of the balance sheet. Even so, the analysis shows that the additions to the companies' own resources coupled with the finance obtained by running down liquid assets and borrowing from the banks, were sufficient to finance an increase of no more than about 5½ per cent. in the money value of "other assets net." It follows that if these companies were in fact able to add more to their fixed assets than is shown by these figures (as might well be necessary in order merely to preserve their fixed capital intact), this can have been done only by incurring additional liabilities not shown in the table (*e.g.*, by issuing loan capital) or by investing in the business sums required as specific provisions (*e.g.*, in respect of tax liabilities). The experience of the banks does in fact show that sums held for payment of taxes are commonly used as working capital until paid over, when they have to be replaced by borrowing, probably from the banks.

To sum up, the enquiry amply confirms the general impression that in post-war years the increase in capital resources has not kept pace with the rise in the financial requirements of business undertakings. Up to the present the financial position of companies as a whole may not show such acute stringency as is sometimes supposed to prevail, but the danger of serious difficulties is clearly suggested if the inflation of recent years should continue or, alternatively, in the event of any considerable trade recession. In either of these contingencies, it seems probable that large sections of industry would be able to maintain their activities only by looking to the banks for support on a scale which, in many instances, might not be justified in relation to the trader's own capital resources.

Depreciation and Replacement

In seeking to explain the development of financial stringency it is impossible to isolate the influence of taxation from that of other factors. We feel no doubt, however, that the existing systems of basing depreciation allowances for fixed capital on original cost, and of levying taxation on "profits" which reflect merely an inflationary rise in the price of stock that has to be replaced at the inflated price, are elements of overwhelming importance. We take it as self-evident that both profits tax and income tax as applied to companies are intended to be taxes on income and not on capital. To the economist, if not to all accountants, it appears equally self-evident that the true profits for any period cannot exceed the receipts accruing from the year's trading after providing for the replacement of the fixed and circulating capital used in earning the profits for the period.

Of greater practical importance than the considerations of abstract

equity which figure so prominently in the Tucker Committee's discussion of the question, we would suggest, is the damage likely to be inflicted on the national economy by taxation of capital over a prolonged period. Official publications give some indication of the magnitude of the sums involved. The *Economic Survey for 1951* estimates (p. 44) that no less than £700 millions will be required by companies and public authorities this year to finance stock appreciation; yet the total of undistributed profits (as amended in the light of the Budget) is placed at only £690 millions. In the five years 1946 to 1950 inclusive, according to the National Income White Paper (Cmd. 8203, Table 29, Item 10) sums totalling £652 millions were required for that purpose by companies and public corporations. Similar figures are not available to indicate how far depreciation allowances based on original cost fall short of the sums required to finance the replacement of fixed assets at current prices, but some indication may be given by the figures of initial allowances. The effect of the enhanced initial allowances on new capital is to mitigate the over-statement of profits due to the inadequacy of allowances in respect of existing capital installed when prices were lower. It seems reasonable to suppose that total depreciation allowances, even after the inclusion of initial allowances, are not larger than the Inland Revenue considers justified on the facts. Initial allowances in 1950 totalled £260 millions (Cmd. 8203, Table 2, Item 10). That figure may provide some measuring-rod for the amount of capital subjected annually to taxation as "profits" in earlier years, and of the burden that will be reimposed by the withdrawal of the initial allowances as proposed in the Budget. The Commission naturally needs no reminding that the Tucker Committee recommended an increase in initial allowances as a substitute for any of the proposed methods of giving recognition to the principle of replacement costs.

Other Aspects

It has been shown that in periods of rising prices company profits as computed on ordinary accountancy principles greatly exceed the true profits remaining after the maintenance of physical capital. It is the general experience, however, that profits as computed for tax assessment invariably exceed those computed on accepted accountancy principles. This arises mainly from the ordinary commercial practice of charging to current earnings provisions which are deemed necessary and prudent for depreciation and diminution in value of assets, provisions in respect of future expenses which should be charged against current revenue, and other provisions of a similar kind. The amounts provided from profits for amortisation, for example, are not allowed as a deduction for income tax purposes although bankers insist on such provisions being made from a company's taxed profits. Shops, offices and premises in which a wholesale business is carried on have not hitherto been regarded as "industrial buildings" for the purpose of the Income Tax Act, 1945. It is hoped that the Royal Commission will endorse the recommendations of the Tucker Committee that a depreciation allowance should be given for all commercial buildings and a writing-off allowance be given

in respect of leaseholds and certain other wasting assets.

The most serious effect of the over-statement of company profits in assessing liability to taxation is the restriction which it imposes on the ability of companies to accumulate sufficient resources for modernisation and expansion, or adequate financial reserves. Financial institutions occupy no privileged position in this respect; in their case, as in that of other companies, all transfers to reserves, published or unpublished, can be made only from taxed profits. The public interest would obviously suffer if the weight of taxation should make it difficult to maintain reserves of sufficient strength. This aspect of the matter should not be overlooked in any concessions which the Commission may recommend. Such concessions should not be related exclusively to the maintenance of physical capital.

The provisions of the Income Tax Acts regarding the admissibility of charges against revenue are mainly of a negative character, the general implication being that no sum may be deducted from earnings except such "disbursement of expenses . . . being money wholly and exclusively laid out or expended for the purposes of the trade, profession . . . or vocation." The strict interpretation of this kind of restrictive legislation leads to the inadmissibility of certain expenses as deductions for taxation purposes which would be considered as proper charges to revenue in current accountancy practice, being incurred in or in connection with the conduct of the business The taxation principles on which deductions for expenses may be allowed should be more clearly defined and widened in scope in a codification of the Income Tax Acts on a positive basis.

INTERNATIONAL MONETARY FUND ON

Exchange Rates Under Conditions of World-Wide Inflation

IN CONSIDERING whether currency appreciation is a suitable means of dealing with the problems arising out of the current world-wide inflation, countries must weigh a number of important factors. Firstly, no country, except one whose share in world trade is insignificant, can regard prices in world markets as fixed data, and hence can assume that by changing the value of its currency the prices of international commodities in its own currency will be changed to a corresponding extent. Each country, through its demand for imports and its supply of exports, forms part of the world market and through its own action is therefore in part responsible for the price level in these markets. The prospect of touching off a chain reaction must be kept in mind, because it is unlikely that any given country could act alone in revaluing its currency under present conditions, and it could certainly be expected that, if any large group of countries revalued their currencies, world market prices in terms of dollars would receive a strong upward impetus.

The great majority of countries do not have strong and persistently favourable balances of payments, maintained without the help of restrictions. Currency revaluation may weaken further their balances of payments. On the import side, it may involve either a greater outlay for imports or the intensification of restrictions. On the export side, too, the effects of revaluation would require careful consideration. It would be a mistake in this connection, to assume that the inflationary pressures of the last year have so weakened competitive forces in international markets that exporters in general can again count on a sellers' market in which price is of little importance. Moreover, the possibility of an anticipation by the public that any substantial revaluation might have to be reversed in the not too distant future might invite the kind of speculation against currencies which was a major trouble before the 1949 devaluations.

Any transitory benefits to be expected from appreciation in an environment where shortages of exportable manufactures are expected may easily be exaggerated. The pressure of inflation is great both in Western Europe and in North America, where large defence programmes are being undertaken. The inflationary pressures resulting therefrom demand firm fiscal and credit policies keeping in check all types of unnecessary domestic expenditure. On the international payments side, every effort is still necessary to avoid continued dependence on external aid and to relax reliance on restrictions and discriminations. One of the most important factors that would contribute to continued improvement in the payments position of Western Europe is competitive export prices. The present exchange rates for Western European currencies and the currencies of the countries associated with them give their exports a strong competitive position, which appreciation would weaken and perhaps undermine.

From Annual Report 1951, International Monetary Fund, Washington, September 11, 1951

In facing the issue of a possible substantial revaluation of currencies over a wide area, account must be taken of the general conditions of the world at present, and the need for co-operative, rather than competitive, monetary and exchange rate policies which this situation requires. In the present world situation member countries' anti-inflationary policies should primarily rely on measures which will combat the inflationary pressures within their own economies, rather than on attempts to transfer these pressures elsewhere by changes in exchange rates. The creation of the International Monetary Fund was due in no small measure to the realization that the world had been ill served by the exchange policies of the thirties, whose effect was to unload on other countries the curse of deflation. The pressing world problem today is inflation. Widespread appreciation would be as ineffective for solving this problem as widespread depreciation was for solving the problem of deflation in the thirties.

Fluctuating Rates

From time to time, in the public press and in both technical and non-technical discussions of foreign exchange policy, the Bretton Woods par value system has come under critical review. There has been some advocacy not only of fluctuating exchange rates to suit particular circumstances facing a given country but even of a large number of rates fluctuating at the same time. One important argument offered in favour of this system is the idea that exchange rates should be left to find their own level, in the belief that market forces can best determine appropriate valuations for currencies. A fluctuating rate is sometimes advocated as a procedure better designed than changes in par values to facilitate frequent changes in the rate of exchange when such changes are made necessary by unstable foreign or domestic conditions. Those who favour a "fluctuating rate system" also argue that each rate of exchange should move so as to protect the domestic economy from pressures arising abroad, and under other circumstances, that the exchange rate should protect the balance of payments against pressures arising out of domestic economic policies.

The continuing interest in alternative foreign exchange arrangements calls for a brief review of the par value system and of the objectives that it serves. The system is not a wise one merely because it was written into the Articles of Agreement. But it is correct to state that it was written into the Articles of Agreement because it emerged from the experience of the world over a period of many years. No one would deny that the maintenance of a given exchange rate is sometimes made very difficult either by a set of internal policies or by the external economic forces with which countries must deal. In the main, these difficulties arise from the fact that changing economic forces operate with unequal effects on various countries. Nevertheless, it is a striking fact that the maintenance of stable rates of exchange is virtually the invariable objective of all countries at all times; even those countries that have embarked on a policy of fluctuating rates have in practice generally stabilized their rates within narrow limits over long periods of time.

Those who advocate allowing rates to find their "natural" level,

permitting market forces to determine a rate of exchange that will be stabilised, seek to provide a simple solution for a very complex problem. There is no such thing as a "natural" level for the rate of exchange of a currency. The proper rate will, in each case, depend upon the economic, financial and monetary policies followed by the country concerned and by other countries with whom it has important economic relationships. If the economy of a country is to adapt itself to a given exchange rate, there must be time for the producers, sellers and buyers of goods and services to respond to the new set of price and cost relationships to which the rate gives rise. This means that in the short run changes in the exchange rate are either no test or a very poor test of basic economic inter-relationships. It also means that whether a given exchange rate is at the "correct" level can be determined only after there has been time to observe the course of the balance of payments in response to that rate. Moreover, past experience with fluctuating rates of exchange has proved that movements in the rate are significantly affected by large speculative transfers of capital. Consequently countries prefer to make adjustments in their rates of exchange in a manner that will minimize distortions through speculation. Parenthetically it may be mentioned that generally implicit in the arguments for fluctuating rates is the assumption that some major currency will remain stable as a point against which to operate the fluctuating rates.

When a rate of exchange becomes inappropriate because of fundamental changes in a country's balance of payments, arising from forces either external or internal, it should be adjusted to the new situation. The Fund Articles are sufficiently broad to permit any necessary and justifiable changes in par values, and if changes are made by the orderly procedure provided by the Articles, sufficient weight will be given to the interests of all members of the international community. In the present circumstances it is essential that the co-operative endeavour represented by the Fund be extended and improved, rather than undermined. By establishing the Fund, its members recognized that each had a responsibility toward all the others; that the action of each had effects on all the others; and that only by working together could they mitigate the evils of economic nationalism and secure the benefits of expanded trade. The course of events since Bretton Woods has shown that their judgement was sound.

Exceptions to the Rule

For these reasons a system of fluctuating exchange rates is not a satisfactory alternative to the par value system. But there may be occasional and exceptional cases where a country concludes that it cannot maintain any par value for a limited period of time, or where it is exceedingly reluctant to take the risks of a decision respecting a par value, particularly when important uncertainties are considered to exist. Even under such circumstances, however, members of the Fund must recognize that should any one of them be moved by these considerations to allow its rate of exchange to fluctuate, other members of the Fund will be affected. For a country whose position in international trade is comparatively unimportant, this consideration may not be as significant as the benefit it expects to derive for its own economy. But

there is always the danger of the psychological impact of such action on expectations in other countries that might force these countries to follow the same course. When such a situation is examined with respect to a country with an important position in international trade, particularly if its currency is one of the major trading currencies, the implications for other countries are far more important than the results that it might seek to achieve for its own economy. Moreover, if a substantial number of exchange rates were allowed to fluctuate, complex problems would be created for all countries and a chaotic situation might easily develop.

The par value system is based on lessons learned from experience. There is ample evidence that it continues to be supported by the members of the Fund. Exceptions to it can be justified only under special circumstances and for temporary periods. The economic and financial judgement of the Fund in such cases must be tempered by recognition of its international responsibilities.

Canada's Special Case

On September 30, 1950, the Government of Canada suspended its fixed rate of exchange and announced that the rate would be permitted to fluctuate in response to market forces. This action was taken in order to check an undesired capital inflow, mainly from the United States, which was adding to the money supply and tending to depress interest rates, thus augmenting internal inflationary pressures and, at the same time, increasing Canada's gross foreign debt and annual service charges. The objective of the Canadian action thus differed from that of previous exchange rate adjustments of most other countries, which were intended to rectify an unfavourable balance of trade and to check an outflow of capital.

The heavy inflow of capital into Canada in 1950 of about Can$1 billion was accompanied by a deterioration in Canada's over-all balance on goods and services, although the current account with the United States showed substantial improvement. Speculative opinion in the United States had formed the view that the trend of the balance of payments with the United States would continue increasingly favourable to Canada, and might lead to an upward revaluation of the Canadian dollar. More than two thirds of the total inflow of capital for the year was concentrated in the third quarter when there was a considerable movement via the security markets under the influence of this speculative opinion. In view of the speculative nature of much of the capital inflow, the Canadian Government felt unable to foresee the end of the movement so long as a fixed exchange rate was maintained. As, in the view of the Government, it was impossible to determine in advance with any reasonable assurance what new level would be appropriate, it announced that the rate of exchange should be left to be determined by market forces.

The Fund recognized the exigencies of the situation that led Canada to the proposed plan and took note of the intention of the Canadian Government to remain in consultation with the Fund and to re-establish an effective par value as soon as circumstances warranted.

Must Export Trade be Based on Home Markets?

A denial of the validity of current political arguments against Purchase Tax.

By R. F. Kahn (Cambridge)

IS EXPORT TRADE to be regarded as the "overspill" of home trade, or is it capable of a status of greater independence? The question does not lend itself to a direct "no" or "yes". The importance of home trade to export trade provides the basis for a certain amount of special pleading, by which the economist's mind is inevitably prejudiced against the view favoured by the business man. At the beginning of the war the special pleading was aimed at the unpopular limitations on home trade, today it is aimed at the equally unpopular purchase tax.

The customary plea by business men for a relaxation, in the alleged interests of export trade, of restrictions on home trade makes no distinction between short-run and long-run considerations. The short-period validity of these claims is taken first:

One view is derived from the idea that as a result of a reduction in domestic demand, the overseas market is rendered relatively more attractive, so that exports will actually increase, the reduction in demand leading to a fall in price. The opposite argument is that a reduction in output would mean heavier burdens of overhead costs per unit of output, that price would be *raised*, and exports would fall. This latter argument, very popular at one time with business men, would be consistent with the facts only if in a depression prices rose rather than fell.

But both arguments are on the basis of the same price being charged at home and overseas. Under normal conditions of imperfect competition this is not the case. A firm, fixing its export price, will aim at the maximum profit and will, therefore, take into account only the additional costs involved in the extra production. A decline in home demand would mean that it was profitable to make up on export part, or all, of the trade lost at home; export price would be lowered, not raised.

Present Conditions

At the present time, with total output of many commodities determined by some over-riding bottleneck—sheet steel for motors, etc.—it would seem impossible to dispute the view that a reduction in home trade leads directly to an equal expansion of exports, as exemplified in the figures for the remarkable, and continued growth in our exports of motor-cars and lorries. By way of contrast, our exports of cotton goods in the second quarter of 1950 were 18 per cent. less in volume than in the same quarter of 1949 despite devaluation; for this, the abolition of clothes rationing early in 1949 must surely be held partly responsible.

Summarised from Economic Journal, London, June 1951

Suppose, then, that it is granted that purchase tax and other restrictions on home demand lead to higher volume of exports. Why adopt this particular means of encouraging exports? It involves discrimination between the overseas and the home markets and, therefore, must face the *prima facie* objection to any departure from the ideal free-trade position in which nothing is done to warp the relative pulls of home and overseas prices. In other words, would it not be better by means of devaluation to make overseas markets more attractive rather than, through discriminatory restrictions, keep the home market unattractive?

The answer is that it should be some of both. It would have been madness not to have devalued in 1949 and to have relied instead on a drastic curtailment of consumption. But it would also be stupid to carry devaluation to such lengths as to obviate the need for curtailment of consumption. The reasons are various:

1. Devaluation is inflationary and calls for extra taxes or additional thrift to support it.

2. Devaluation requires, in some degree, international consent, and is liable to be imitated by competing countries, which are less likely to follow the example of a more direct imposition of austerity.

3. The business man does not necessarily react in the same way when it is a question of choosing between (a) a very profitable overseas market and a moderately profitable home market, as when he must choose between (b) a moderately profitable overseas market and an unprofitable (or limited) home market. In some ways the stick is more effective than the carrot. The business man is not always interested in making the maximum profit, least of all with present rates of taxation.

The opening up of hitherto undeveloped export trade is not only a matter of working up new contracts but of devising special selling methods and types of products and often of organising the supply of spare parts and servicing facilities. Although calculations may point to a financial advantage to be secured by diverting to markets abroad, all too often mental inertia will determine the issue the other way. But faced with loss of trade—not merely a decline of profits but a reduction of output — the business man will be much more ready to seek alternative outlets.

Killing the Goose

Of the longer-term considerations, the most important turns on the discontinuity in the relationship between demand and output. As demand is reduced, there comes a point at which demand is still finite, but at which, if sufficient time is allowed, output is reduced to zero. And, still more emphatically, a finite demand must be established before any output is forthcoming at all.

Let us consider a case in which reduction in home trade is very drastic, so that despite the maintenance of overseas demand, production becomes so unprofitable as to be abandoned altogether. The whole of the exports would then be lost.

It is most unlikely that under conditions of perfect competition a whole industry would close down in this way. With imperfect competition the matter is more complicated, the closing down of a single firm may result in a loss of exports

which outweighs the increase in the export trade of other firms in the same industry which continue to produce at lower prices.

Here it is fair to point out that many of those who clamour for a reduction in purchase tax, or for its elimination, would take a different view if the tax was uniform. It is its discriminatory incidence of which many critics complain. What is advocated is a reduction of the higher rates of tax; what is often in mind is the danger of complete elimination of particular products and varieties.

But repercussions on exports of other products must be considered. It is likely that a cut in the rate of tax on one article would result in a loss of revenue, and unless this effect is balanced by increases in other taxes, the total amount of resources applied to export would probably decline as a result of diversion of resources to production for the home market of the article on which the concession was granted.

It would be unfair to regard this last point as conclusive. It is *possible* that the same or smaller amount of resources devoted to export would yield a larger return in foreign currency, in that the terms of trade would move in the country's favour as a result of opening up or re-opening lines of export in which it enjoys advantages.

Cheaper Exports Wanted

Two objections to the pleas for reduction of purchase tax are:—

1. The inflationary effect of any concession is a factor pulling strongly in the opposite direction (unless consequent shift in consumption into the more highly taxed sectors increases the yield of the tax).

2. It is necessary to demonstrate that the high discriminatory tax makes the production of an article so unprofitable that it is not going to be available at all despite the opportunities of export. Such situations would seem too rare to justify entrusting to this slender foundation the case for large-scale concessions. A sense of proportion as to the magnitude involved must be preserved. Our *total* exports of apparel, for example, in 1938 amounted to a mere £8½ million. Nor must it be assumed that the foreigner's taste is consistent with that of a lively domestic demand.

Indeed, there is a danger that our industrial leaders, obsessed with a desire for a more profitable home market, are failing to take adequate account of the enormous unexploited opportunities which exist abroad for catering for the needs of the masses, who want cheap goods rather than the luxury products, the export of which purchase tax is said to be prejudicing. There is also the danger that a dominant home market may dictate the style of goods that the exporter attempts to sell overseas.

A British Textile Mission reports that British exporters "tended to send fabrics that were too heavy to be acceptable throughout the market. There are few places (one is San Fransisco) where the heavier fabrics are saleable."

It is easy to exaggerate the importance of a large domestic market in the development of new new products. An example of an industry in which the proportion exported was high from the first is the Swiss watch industry, which ousted American products from the international field.

Spur of Exports

Indeed, a world market has some positive advantages over a domestic market in building up an efficient industry. International competition is far more bracing than domestic competition. The reason for this lies partly in the price-fixing and other restrictive arrangements which rule a good deal of domestic trade.

It seems safe to say that once an industry has been established—and, more narrowly, once the production of a particular variety of product has been established—it depends much less on the size of the home market than did its original establishment. The thresholds for entry and for exit are at very different heights, and many of the economies of scale are irreversible. The danger is, however, that the new industries, and the new products, on which efficient development will depend, will fail to come into being at all—or fail to be produced on a scale adequate for efficiency.

Perhaps I can sum up as follows. I would agree that from a long-term point of view nothing could be worse than forcibly to divert into temporarily starved overseas markets the products of manufacturers whose minds are wedded to the idea of a fairly speedy resumption of normal access to the home market. What is wanted is a complete change of attitude of mind, and a ready acceptance of the fact that in many lines it will remain necessary to export a far higher proportion of output than would before the war have been regarded as tolerable.

UNHEALTHY DECLINE IN AMERICAN FARM POPULATION

Pointing up the fears of analysts and the opinion of many spokesmen for national agricultural associations that the farm labour supply is diminishing more rapidly than it is being supplanted by labour-saving farm machinery are figures recently released by the Bureau of the Census. Since 1935 about 1.5 million persons annually have left farming areas, and arrivals from non-farm areas have failed by a rough annual average of 500,000 to replace migration from farms.

In 1950 the nation's farm population apparently reached the lowest point since the Government began tabulating such figures in 1910. There has been a steady decline in farm population since the first census, made in that year, showed rural dwellers to number about 32.1 million persons. By 1950 the national's farm population, as estimated in April, had dropped to 24.3 million persons. The previous low figure was posted in April, 1945, near the close of World War II, when many nominally agricultural workers were in the armed forces. The significance of the decline may be illustrated by the fact that between 1940 and 1950 total farm population showed a marked decrease of 5 million persons, which shows that the exodus has accelerated during the past decade.

No 1951 figures are available as yet and, consequently, it is impossible to determine accurately the effect of the post-Korean upsurge in agricultural commodity prices upon rural migration. A partial indicator is provided by current estimates of agricultural property prices, which suggests that demand for farm properties has heightened during the past twelve months. An analysis from data collected in 347 communities by the National Association of Real Estate Boards states that a higher price level was reported by 65 per cent of the reporting communities; 32 per cent reported that prices were similar to last year's figures, and only 3 per cent reported lower farm real-estate prices. Regionally, prices of farms have advanced most generally in the East North Central States of Illinois, Indiana, Ohio, Michigan and Wisconsin, with increases almost as great in the West North Central Region.

Guaranty Survey, Guaranty Trust Company of New York, August, 1951

India's Realistic Five-Year Plan

PLANNING HAS BEEN in the Indian air for some time. It has taken six years to descend from the heady heights of 1945 to the sober realism of the Planning Commission's Draft Outline recently published by the Government of India for public comment.

At the end of the war the Government talked of a surplus of £75 millions a year and borrowing of another £75 millions a year. The Government will be lucky if, over the next five years, it can achieve a surplus of £20 millions or borrow £50 millions a year, and this in rupees worth only two-thirds of their value in 1945.

The initial hopefulness set Indian planning off on the wrong foot. Too many projects were started at once for the technicians, the steel, or the plant that were available. As a result, little has yet come into production, estimates have risen, public enthusiasm has fallen, and Government has been committed for the next few years to projects not all of the first priority.

The Planning Commission has wisely refrained from behaving as if it began with a clear field. It has accepted the fact that five years of work had been done before it began, and that works in progress, or even schemes for which the project surveys have been completed, cannot be abandoned, or usually even slowed down, without serious loss.

The Commissioners have not estimated the increase in the national income to be expected from the plan they now propose. It would, in fact, probably give an increase in production of about 1 per cent. a year, over and above that required to cope with the increase in population. The prospect of a rise in the standard of living by 5 per cent. in five years, after a decade of steadily worsening conditions, would, undoubtedly, do much to improve the public mood.

The Commission has chosen a less ambitious though necessary task. It has cleared the undergrowth of impracticable or impossibly expensive schemes and of ideas that development can be financed by inflation, or non-existent surpluses, or a few incentives to the rich which will suddenly produce millions of hidden savings. It has decided that all that will be available from India's own resources is £225 millions a year and it limits its plan accordingly.

This estimate of £225 million itself has been criticised as optimistic, as it depends upon deficit financing and upon a Central surplus which recent increases in food subsidies and dearness allowance have probably eaten up. On the other hand, in some other ways the Commission's estimates are inclined to pessimism; the states ought to be able to produce more than £60 million extra if taxes are raised (betterment tax, higher sales tax and land revenues, death duties); and either a continuation of high yields fom export duties, or revaluation, or a drop in world commodity prices may yet restore the Centre's position.

So long, therefore, as inflation does not get appreciably worse, and the Government does not further

From Manchester Guardian, August 21, 1951

increase its defence budget, the Commission's estimates of what is possible may be accepted as reasonable.

If the plan is finally accepted the Bihar Government will know that its schemes for tube wells are approved but that the great Kosi Dams will have to wait. The Centre will know that its Institute of Technology in Eastern India may go ahead, but that its full plan for four such institutes must wait. As the pigeon-holes fill up again, there will be room on official' desks once more for the blueprints which they are supposed actually to carry out.

Chosen Priorities

With the priorities chosen for the Government sector, there has been little quarrel. A hundred and fifty million goes to the railway—India's transport is still overwhelmingly rail-borne and few measures could do more to facilitate business than the certainty of getting a wagon when one needs it: £340 million goes to irrigation and power—India's great agricultural weakness is its dependence on the monsoon and this expenditure will either protect or bring under cultivation for the first time eight million acres.

India's coal is concentrated in a few areas and more power is badly needed if India's industries are to be properly dispersed and its natural resources, such as bauxite, properly developed. It is, however, doubtful whether there will be customers for all the power produced in such cases as the 1,360,000kw. of the Bhakra Dam in the East Punjab.

The Commission is indeed practical throughout. It provides some money for the most important birth-control clinics India needs so badly; it also provides some to enable a beginning to be made in dealing with useless cattle in a way which popular religious sentiment will accept.

In agricultural production, the Commission expects 7,300,000 tons more food, 1,200,000 bales more cotton, 2,060,000 bales more jute, and 375,000 tons more oil seeds by 1956. This will free India's two main industries of most of their dependence on foreign raw materials, though it will still be necessary to import 700,000 bales of long-staple cotton and 1,200,000 bales of jute; and it will permit the new mouths which will come into being to be fed. The Commission expects that, if India continues to import three million tons per year, average cereal consumption might be raised from 13.67 oz. to 14½ oz. per day — though even 14½ oz. would still give the average Indian little more than half as much to eat as the average Englishman.

Industrial Hodge-podge

The Commission's industrial plan has met with more criticism. There is a proper emphasis on steel, whose production is to be increased by 300,000 tons. Nothing is holding up India's industrial development more than the gross shortage of steel, and India's iron ore is of so high a quality and so near coke that no country is better suited by nature than India for a steel industry: but the technical and financial difficulties in the way of doing more may be, as the Commission contends, insurmountable.

Otherwise the industrial plan appears to be a hodge-podge of the estimates given by various industrialists. Some of it is perfectly reasonable, such as the provision for the increase in paper production

from 109,000 to 165,000 tons a year; some of it is merely odd, such as the belief that the soap consumption will rocket in five years from 102,000 tons to 280,000 tons; some of it inexplicably pessimistic, such as the failure to provide for any real expansion in the cotton textile industry, for which India has so many natural advantages and so large a home market.

The Commission asks for nothing from the West; it only says that its full plan would require £225 millions of foreign aid beyond that already in sight. It should not be too much for the West to give to the greatest democracy of the under-developed world.

GOLD COAST DEVELOPMENT PLANS

The general programme of the plan for the economic and social development of the Gold Coast falls into four broad categories:—

1—Economic and Productive services (£12,500,000); 2—Communications (£26,000,000); 3—Social services (£24,500,000); 4—General Administration (£11,000,000).

Also to be taken up at this legislative session is a £11,200,000 plan for education. This is to be under way next January, and will introduce free primary school education into the Gold Coast.

Approximately two-thirds of the finance necessary was to come from available surplus balances, annual Government revenues and export duties on cocoa. The remaining one-third was expected to be derived from loans. In answer to questions in the Accra assembly, Dr. Nkrumah, Minister of Development, said that the "Government appreciates the need for co-operation and assistance from overseas as regards technicians, investment capital and the like."

Accra, August 25, 1951

GREATEST HOUSING PROBLEM IN THE WORLD

Close scrutiny of tropical regions where, according to a widespread belief, shelter is a minor problem, was given by a mission of experts which visited India, Pakistan, Malaya, Singapore and Thailand last winter.

"Prevailing conditions in Asia," the experts reported, "create the greatest housing problems in the world." Broadly, the situation is that more than 100,000,000 Asian families (perhaps as many as 150,000,000) at present live in crowded insanitary, substandard quarters, urban or rural. A great many of these people are crowded in at the rate of two or more families per room. Ventilation and sanitation range from the worst to fairly satisfactory. For the most part, there is no protection against vermin. Proper, even very simple, arrangements for the storing of food, bathing and the washing of dishes and clothes are almost unknown.

Approximately 85 per cent of the population of the countries visited by the Mission lives in villages and rural districts. Hence, quantitatively, the home environment and the community environment of the villages constitute the major phase of the problem for governments. It is often assumed that slums and housing shortages exist only in the cities; that the village family is content with what it has; that living in the country is healthy *per se*.

All these assumptions are fallacious. By and large a great many villages in South and South-East Asia are slums. In those areas almost the whole rural population lives in grossly sub-standard, unhealthy environment. "The village family is very often crowded into too little space."

United Nations Bulletin, July 1, 1951

Twenty-Four Points from ECE Bulletin

Europe's Buying Spree is Over

Prices and Demand: During the first quarter of 1951 the pause, or relapse, in the inflationary atmosphere in the outside world was paralleled in many parts of Western Europe. The European buying spree which took place in January and February was replaced by a drop in the value and volume of retail sales in March and April, as compared with the same months in 1950.

Price Prospects: It is unlikely that there will be an actual fall in the general structure of European costs and prices, and quite likely that it will continue to rise. For the rises in retail prices have already driven up wages, and in no country are wages likely to fall. This downward inflexibility means that the sharp rise in wholesale price quotations, even if followed by a substantial fall, is almost certain to leave the general wage and price structure at a higher level than before, even in countries where there is heavy unemployment.

Cost-Inflation: While the basic rises in costs initiated in 1950 continued to work through the first Quarter as expected, there is no doubt that the underlying forces which initiated the first round of inflation were slackening in most western countries. If this slackening continues, the future course of prices will depend on the extent to which rising retail prices themselves generate further wage increases, and on the extent of rearmament expenditure.

Varying Factors: In some countries, the reduction in the volume of consumer expenditure may be due to a decline in real wages, in others it represents consumer resistance to abnormally high prices—coupled with a genuine expectation that they will fall—and, in others, it is mainly an attempt to replenish liquid assets after the buying spree.

Western Germany: In Western Germany, there is clear evidence of a recession in consumer demand and in the pressure of orders on industry; the general level of internal demand has been sufficiently low to have allowed exports to rise at a very rapid rate; the rise in exports combined with restrictions on imports has converted the deficit with the European Payments Union into a surplus, which may well have the effect of offsetting the decline in internal demand. Western German unemployment shows little sign of declining.

United Kingdom: In the United Kingdom unemployment, already reduced to negligible proportions, has been falling still further and the economy is showing every sign of suffering from severe strain. Cost inflation is rampant and towards the end of the year may well be enhanced by demand inflation flowing from the heaviest rearmament programme in Europe. For one reason or another exports are wavering; this, combined with the high cost of imports, has created a new balance of payments problem which will have to be countered by a renewed export

From Economic Bulletin for Europe, First Quarter 1951. *Geneva, August*, 1951

drive or cuts in imports, thus adding to the inflationary pressure.

France: In France, the cost of living rose at the same rate as in the second half of 1950 and by May was 10 per cent. above December; wages seem to have kept up the pace. Wholesale prices, although stable between April and May, were then 17 per cent. above December. But the situation certainly has not yet developed as dangerously as was anticipated in the *Survey of Europe in 1950*.

Italy: In Italy, retail prices in May were 7 per cent. above December, but in this country also the situation has remained more stable than might have been expected from past experience. Although industrial production continued to accelerate, the rise was not associated with so great a rise in wholesale prices as occurred in previous post-war periods of expansion.

Belgium and Other Countries: In Belgium, retail prices in April were 6 per cent. above December, but consumers are said to be expecting them to turn downwards (although there is little evidence so far of these expectations being realised). In the Scandinavian countries, retail prices rose more than elsewhere. In Switzerland, all prices have remained remarkably stable.

Industrial Production: During the first quarter of 1951, total European industrial production maintained the high level which had been reached in the previous quarter but did not show any further significant increase. This production, not counting that of the Soviet Union, was 14 per cent. above the level of the first quarter of 1950. Divergencies in the movements for major industrialised Western European countries were not very extreme, varying from an increase of 4 per cent. over the fourth quarter in Italy, to reductions of 1 per cent. in the United Kingdom, Sweden, Denmark and the Netherlands.

Supplies of Fuel: An over-all shortage of coal still looms large on the European horizon. The coal problem is likely to remain intractable as long as the economical use of coal is discouraged by the low level of domestic prices in the principal producing countries—Western Germany and the United Kingdom—and as long as a rational distribution by qualities and areas is hampered by bilateral agreements.

Supplies of Raw Materials: In spite of the fact that only in a few instances has production clearly been directly reduced by raw material shortages, the supply position is in many respects tight enough to slow down industrial activity because of irregularities in the flow. Total European employment in industry did not rise in the first quarter, and unemployment appeared to show normal seasonal increases in countries where it is heavy, notably Italy, Belgium and Western Germany. It appears that, over Europe as a whole, those countries where there is substantial unemployment now produce one-third of the quantum of total European industrial output.

Import and Export Prices: For Europe as a whole, prices for imports from overseas rose by about 12 per cent. between the last quarter of 1950 and the first quarter of 1951, whereas export prices to overseas rose by only 6 per cent. The resulting deterioration in the terms of trade by about 6 per cent. further strengthens a tendency which began with the devaluations of September, 1949, and explains, at least in part,

the deterioration in Europe's balance of overseas payments, particularly with the overseas sterling area.

Volume of Trade: At the end of 1950, a large increase had taken place both in Europe's overseas exports and in intra-European trade, with volumes exceeding the average level of 1949 by roughly one-half. Overseas imports on the other hand, had remained approximately at the level of early 1950. The volume of total exports of European countries during the first quarter of 1951 hardly changed. In value, the total exports of ten western European countries dropped from $5,622 million in the fourth quarter of 1950 to $5,615 million in the first quarter of 1951.

East-West Trade: Trade between the eastern and western countries of Europe remained at a very low level. The roughly constant figures in current value indicate that the total volume probably diminished. A small increase in the value of exports from the West occurred mainly in respect of Yugoslavia. And an increase is shown in the exports of the U.S.S.R. to Italy and the United Kingdom, consisting mainly of cereals and hides and skins.

Imports from Overseas: Over-all import volume indices remained relatively constant, and, while a small reduction occurred in the volume of intra-European trade, imports from overseas rose by about 5 per cent. in volume and by about 18 per cent. in value. The rise in prices accounted for about 12 per cent. of this increase in value. While the value of imports from Canada and Latin America declined by no more than one-tenth, it rose by 16 per cent. from the United States and by 35 per cent. from the overseas sterling area.

Imports from the U.S.: An increase of about $200 million in the value of imports and a continuation of the upward trend in the value of exports formed the main general features of Europe's trade with the United States during the quarter. Cereals more than accounted for the increase in total value over the last quarter of 1950.

Exports to the U.S.: European exports to the United States during the first quarter of this year reached a value of about $250 million, or 100 per cent. more than in the first three months of 1950; the increase over the December quarter was $50 million. Exceptional exports of industrial materials such as steel, non-ferrous metals, chemical products and industrial alcohol, were partly responsible for the high total.

Exports of Manufactured Products: Exports of manufactured products increased after the outbreak of hostilities in Korea at a rate of about 20 per cent. This increase seems to have affected consumers' goods as much as, if not slightly more than, investment goods.

Changed Positions: The position of various exporting countries has shifted considerably. The United Kingdom, for instance, increased its exports of manufactures by only 7 per cent., and practically the whole increase was concentrated upon consumers' goods and chemical products. In striking contrast, Western German exports of manufactures (not counting inter-zonal trade) increased by about 70 per cent. in volume and now exceeds the pre-war level. The increase has been largest in exports to overseas count-

ries; the value of these exports is, however, still relatively small.

German Competition: Following a comparison of trends in exports of manufactures by five western European countries up to March, 1951, Germany has been able to take advantage of the change in the world market situation to re-introduce herself as one of the great suppliers of finished products without giving rise to violent reactions from her competitors. Her progress as an exporter has developed further since the first quarter of the current year, and German competition would become one of the major factors in the field of international trade should demand in world markets become less pressing.

In order to bring out more clearly the impact of renewed German competition, particularly for metals and metal products, machinery and chemicals, total values (at pre-devaluation prices) are compared with those of the U.K. in the table below.

French, Belgian and Italian Exports: French exports to overseas countries have increased by about one-quarter in nearly all categories and so have exports of consumers' goods and vehicles from France to other European countries. France's exports of metals and machinery to Europe, however, have risen only 14 per cent. Belgium, on the other hand, has considerably increased her exports of metals both to Europe and, more startlingly, to overseas countries. Italy, also, has increased exports of investment goods to European countries.

Balance of Payments: The trade deficit of ten leading western European trading countries with all overseas areas increased abruptly from \$315 million during the fourth quarter of 1950 to \$944 million during the following quarter. The overseas sterling countries accounted for by far the largest part of the increased deficit.

Sterling Balances and Gold: The main burden of financing Europe's increased overseas deficit fell on the United Kingdom, which, as banker of the sterling area, was able to obtain automatically short-term credit from other sterling countries in the form of increased sterling liabilities. This increase is likely to become a crucial point in Europe's balance-of-payments problem during 1951.

WEST GERMAN EXPORTS AS A PERCENTAGE OF BRITISH EXPORTS

Commodities	Jan-Sept 1949	Jan-Sept 1950	Oct 1950-Mar 1951
Metals and manufactures:			
To Europe	73	151	182
To overseas	12	24	53
To the world	30	56	87
Machinery:			
To Europe	27	64	91
To overseas	2	8	16
To the world	9	25	38
Chemicals:			
To Europe	67	155	208
To overseas	6	24	46
To the world	23	59	89
All manufactures:			
To Europe	31	56	76
To overseas	3	8	18
To the world	11	22	35

Plan to Simplify War-Time Controls

By Colin Clark

Whether we like it or not, we are now obliged to begin economic as well as military preparations for a full-scale war against a powerful enemy which may be upon us at any time. Even in peace time we already have on our hands an inflation which we do not seem able to control.

There is a real danger that, if war comes now, quite apart from the military perils we have to face, we may try to run it on an entirely inapplicable set of economic policies, and find our war effort dissolve in inflation and chaos within a few months.

The trouble is that money cannot perform its functions properly because there is too much of it already and will soon be more still. The suggested remedy, therefore, is a simple but far-reaching one, namely, to retain money for certain uses but also to have a limited issue of "priority coupons" to be used only for the purchase of necessaries and munitions. This would be a "hard" currency whose circulation would be strictly limited and in terms of which prices would therefore remain low. The coupon price of each necessary will not be permanently stabilised, but will be allowed to fluctuate with changes in the relative scarcity and relative demands for different commodities. But we can be satisfied that the level of prices of necessaries as a whole will remain stabilised, because of the limitation on the coupon currency. Ordinary currency would be used for all other purposes, *i.e.*, the purchase of non-necessaries, payments of wages and salaries, of debts and taxes, purchase and maintenance of capital assets. Considerable freedom of movement of prices and wages would be allowed in this sector.

Basic Issue

A basic issue of coupons would be made each week to the whole population, subject to certain exceptions, enabling them to buy goods at the rate of £2 10s. per head per week (at early 1951 prices). Young children, people over 75, and invalids will receive £3 per week. This is intended to suffice for the purchase of the basic necessaries of life, including the payment of rent. Out of these amounts also each family will have to set aside enough coupons to pay for the purchase of necessaries for their housewife or housekeeper, who will receive no coupons. Whatever else people can earn above this figure they can spend on non-necessaries, at fairly high prices, or on capital assets. Likewise the Commonwealth Government would pay in coupons for all *goods* purchased for war purposes. But wage and salary payments to the Forces and the Public Service, and the purchase of goods for non-military Government services, would continue to be made in ordinary money.

Coupons can only be kept a hard currency by extinguishing them as fast as they are created. The principal means of extinction will be to make a big coupon levy on all employers according to their pay roll

From "Priority Coupons—A Proposal for Simplifying War-time Controls," Economic News, Brisbane.

This will create two strong incentives for employers—(1) to divert as much of their output as possible to necessaries or munitions or their components, which could be sold for coupons; (2) wherever possible to economise labour, the scarcest of economic resources. But in addition to this levy on employers there will be a considerable intake of coupons from certain other sources. These are:—

(1) Importers. The quantity of goods which we can import will depend upon the amount available in allied or neutral countries and on the shipping position. Subject to these qualifications we should aim at importing everything we can to relieve our shortages. Our imports would consist predominantly of necessaries, and of goods for war production. Every importer will be required, therefore, to surrender coupons for the whole or a large part of his turnover.

(2) Owners of dwellings. As rent is regarded as one of the necessaries in life to be paid for in coupons, all owners of dwelling space should pay a substantial coupon levy.

(3) Owners of farming and grazing land. Agricultural and pastoral output will consist of necessaries to be sold on the Australian market, a certain number of non-necessaries, and goods for export which will be sold for money, not for coupons. However, a substantial proportion of agricultural income would be in coupon form and some special coupon levy should be payable by farmers and pastoralists.

(4) Three particularly scarce necessaries are likely to be coal, electricity and railway transport facilities. The supply of the two former commodities and railway transport of necessaries and military goods should be paid for entirely in coupons. If, as during the last war, it is found necessary to restrict long-distance passenger transport, this could also be made a service for which payments would have to be made in coupons. This will bring a certain coupon income straight back into the hands of public authorities.

Continuous Cancellation

The whole scheme would be run on the principle of extinguishing coupons as fast as they were issued. This would ensure that, although the coupon prices of individual commodities would fluctuate, the price of necessaries *as a whole* would be stabilised.

Each coupon would be stamped with an expiry period of two months, to prevent any hoarding of coupons, which might result in creating a serious shortage of coupons and a decrease in the price of necessaries in the first place, followed by a rise in the price of necessaries later when the hoarded coupons were spent.

Parliament, in its initial enactment, would fix the rates of coupon payment to various classes of the population and a "standard scale" of levies on employers, property owners, etc.; and would direct the Administrator of Coupons to make levies at an increasing proportion of these scales, to the extent necessary to meet increasing war expenditure.

It is intended that traders and producers receiving coupons should pay them into their Banks as soon as possible. The Banks will operate for all businesses a "Coupon Account" as well as their ordinary

money account, and unavoidably will probably need some extra staff to do so.

Such an arrangement, even without any additional action, will make it possible for the Banks to grant small amounts of "coupon credit". If coupons are on the average paid into the Bank one month before their expiry date, the Banks will have a definite but limited margin of coupon credit which they can grant without being in danger of their being unable to meet coupon cheques when presented. But, in addition to this, the Administrator would allow each Bank some credit in respect of coupons payable to him (within a limit fixed by the Act of Parliament).

Changing Rate

The rate of exchange between coupons and ordinary money must be left perfectly free. It will probably change from week to week. This change in the money price of coupons will, in fact, be the most essential part of the mechanism for diverting economic resources from non-necessaries to necessaries.

The Commonwealth should publish from time to time a list of scarce necessaries, in respect of which *sellers are entitled to demand* coupons and at the same time are bound to supply coupon customers. In respect of all other goods, sellers will also be bound to do what they would wish to do in any case, namely, to give priority to coupon customers over cash customers.

When the Commonwealth purchases munitions and other war goods, it will also find itself in a very strong position, because it will be paying entirely in coupons. Instead of having to coax manufacturers with cost-plus, it will probably find them scrambling for the privilege of supplying it, and in most cases will be able to invite tenders (in coupons) for each contract.

There are four classes in the community who will regard these proposals as disappointing and indeed dangerous. There is the bureaucrat who regards war-time as an opportunity for building up a large Department with himself in charge. Likewise, there is the politician who hopes that war will give him more patronage to exert. There is the businessman who believes that he will be able to make a lot of money or money's worth for himself by trading scarce goods through devious channels, and outwitting the controls. And there is the trade union leader who believes that war is an opportunity to build up his personal power.

EDITOR'S NOTE: *Mr. Colin Clark here writes in terms of Australia but obviously the principles propounded are universally valid.*

SOUTH AFRICA'S WOOL EXPORTS EXCEED GOLD

Wool took the place of gold as South Africa's most valuable export during the first seven months of this year. Wool exports realized £49,188,635 with processed and semi-processed gold a close second at £41,327,555.

Reuter, Pretoria, September 4, 1951

Also Worth Reading

Hydro-Electric Development in Canada. *Monthly Review, Bank of Nova Scotia, Toronto, June-July 1951.* Consumption of electrical energy in Canada in 1950 was roughly one-quarter greater than the war-time peak of 1943. Expansion of hydro power is being pushed forward to satisfy increasing demands from all sectors of the economy.

The Revolution in Canada's Trade. *Monthly Review, Bank of Nova Scotia, July-August, 1951.* Almost two-thirds of Canada's exports are going to the U.S.A. Great Britain which before 1947 ranked evenly with U.S.A. as Canada's largest customers, is now taking only 15 per cent.

Summary of the First Preliminary Results of the Census of Production. *Board of Trade Journal, 11 August* 1951. At-a-glance table of value of production, net output, remuneration and numbers of employees, stocks held and investments, by industries.

The Canadian Scene. *Bank of Montreal Business Review, August 23, 1951.* "For the time being federal taxation is withdrawing more from the spending stream than is being added to it by government outlays with consequent anti-inflationary effects."

First Five Year Plan. *Reserve Bank of India Bulletin, Bombay, July 1951.* Summary of the Planning Commission's Draft Outline involving an outlay of Rs. 1,793 crores, most of which is to be devoted to restoring the pre-war availability of consumer good by 1955-56. The Draft is intended to be a basis for discussion by Ministries, States and private industrial organisations. "To set the pattern of future development is a task of such magnitude and significance that it should embody the best thought of the country and reflect as fully as possible the impact of public opinion and the needs of the community."

Structural Survey of Norway, Article No. 15. *Bank of Norway Bulletin, Oslo, 18 August, 1951.* Deals with internal and coastal communications, which, by the nature of the topography of Norway are difficult and expensive to develop.

The Tata Iron and Steel Company, Limited: Speech delivered by the Chairman at the A.G.M. on 22 August. *The Eastern Economist, New Delhi, 24 August, 1951.* Concise survey of the Indian economic situation and problem of population. "(Inflation) must be tackled from the supply rather than the monetary side . . . inflationary pressure on prices in India is caused more by shortages in food and other essential supplies than by an excess of purchasing power." Urges a "high-power" commission to investigate the population problem: if the present rate of growth continues unchecked India's population will be doubled in a little over 50 years.

Comparative Marital Fertility. *Economic News, Brisbane, January, 1951.* The other side of the demographic picture from the fore-going. Australia is calculated to be successful in maintaining its population replacement rate.

Note on the Extent of the Public Sector of the Economy in Recent Years. *Journal of the Royal Statistical Society, Series A, Part II, 1951.* An attempt to measure the relative sizes of public and private enterprise in this country at the present time, both by size of staffs and by gross national product.

Statistics of the Chemical Industry. *Journal of the Royal Statistical Society, Series A, Part II, 1951.*

Need for United Kingdom Trade with Eastern Europe. *Board of Trade Journal, 18 August, 1951.* "Whilst we should certainly do nothing to increase the relative strength of a potential enemy, we should be foolish indeed to impose restrictions on our trade which weakened our own strategic and economic position . . . In 1950 we imported from the Soviet bloc 690,000 tons of coarse grain, well over a third of our total imports. That provided the grain ration for at least a quarter of our animal population." (Sir Hartley Shawcross).

Peru is a Country with a Future. *Board of Trade Journal, 25 August, 1951.* Under present regulations there is in Peru complete freedom of import and exchange. Sterling finds its own level in a free market, governed by the laws of supply and demand. Adequate supplies of sterling are normally available.

South Africa's Balance of Payments and the Sterling Area, *Economic Journal, June 1951.* An article in three parts—1. Causes of the remarkable changes in the balance of payments over the last eleven years. 2. Relationship between the balance of payments and the state of credit in the Union. 3. Analysis of South Africa's recent contribution to the gold and dollar reserves of the rest of the sterling area.

The Location Problem in the British Steel Industry, by S. J. LANGLEY, *Oxford Economic Papers, June 1951*

Planned Investment in the Coal Industry by A. BEACHAM. *Oxford Economic Papers, June 1951.* A summary of the *Plan for Coal* 1950-1965, and a criticism which reveals the almost insoluble problems of planning under nationalisation.

Transport for Eighteenth Century Ironworks. *Economica, August 1951.* Close-up of organisation and costs in Worcester ironworks at the beginning of the Industrial Revolution.

Outlook for Indian Rubber. *Eastern Economist, August 31, 1951.* The boom continues but planters should be prepared to meet competition, when it comes, by evincing interest in keeping costs and prices low.

The Control of Public Expenditure. *Barclay's Bank Review, August 1951.* As a result of historical struggles between King and Parliament, the latter is now master of the public purse. "But it must be admitted that in these days this mastery has become decidedly nominal."

New Books Reviewed

A Course in Applied Economics by E. H. Phelps Brown, Sir Isaac Pitman & Sons Ltd., London (25/-).

The author who of course is the well known Professor of the Economics of Labour in the University of London, emphasises that this is not a treatise or a textbook but a 'course.' By that he seeks to imply that the book does not aim at comprehensiveness, but adopts the method of studying the application of economic theory to a number of current specific problems. For that very reason most students and teachers will welcome it, for it moves throughout in the realm of reality and avoids the high-flown hypothetical that makes many text-books a nightmare. How heartening, for instance, to find the formidable title of Part Five—The Analysis of International Trade—followed by a definition of the scope of the section as 'Devaluation as a Remedy for a Passive Balance of Payments.' Other similarly attractive chapter titles are 'Public policy towards Monopoly'; 'Equal Pay for Equal Work'; 'The pricing system of the public enterprise.' The treatment of every subject tackled is masterly.

The Corporation Income Tax by Richard Goode, John Wiley & Sons Inc. New York, and Chapman & Hall Ltd., London ($3; 24/-).

This study is mainly concerned with the United States, where corporation tax came into force some years earlier than personal income tax. The subject, however, is highly topical in Britain, and many of Dr. Goode's arguments and analyses are equally relevant on both sides of the Atlantic. It is claimed, we think justly, that this is the first book to attempt a comprehensive study of a form of taxation which clearly has many repercussions on the economy of a modern society.

Criminal Statistics, England and Wales, 1950, *H.M. Stationary Office* (4/6).

For those whose work or study is in social problems, the comparative statistics in this official publication will be of great interest. Analyses are given of offences known to the police according to age-groups, to sex, and to sentence for the years 1938, 1948, 1949 and 1950. The work of the courts is analysed in great detail, and a close picture is given of the incidence of each kind of crime.

The broad picture of crime (taking the word in its widest sense) in 1950 may be gained from the following abstract:—

Total number of persons found guilty of offences, 688,650; Traffic offences, 357,932; Larceny, 73,219; Drunkenness and other liquor offences, 48,128; Bye-laws, 26,274; Revenue offences, 24,054; Breaking and entering, 20,480; Railway offences, 19,239.

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